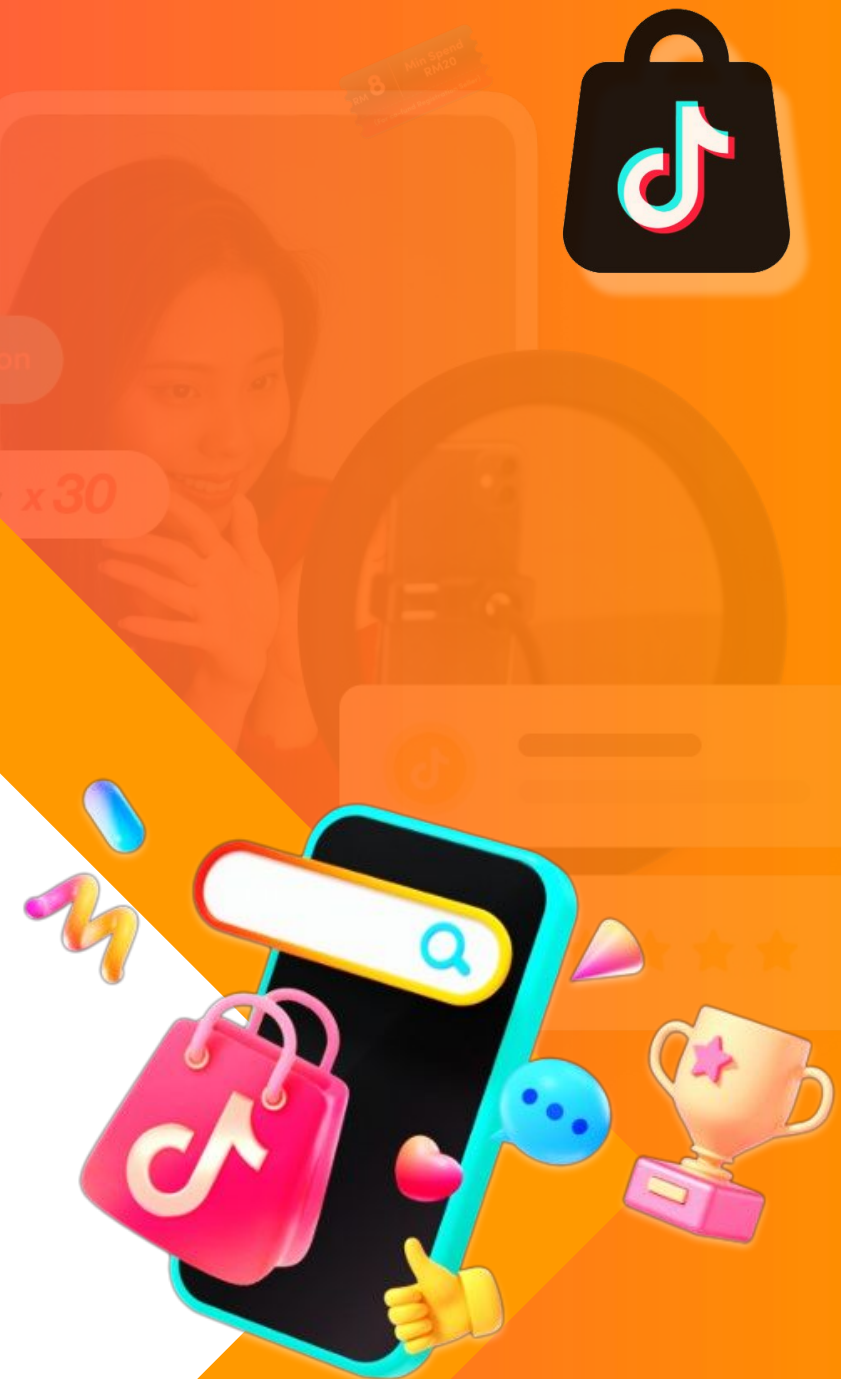




The TikTok Shop Playbook

How ecosystem stakeholders should respond to the ecommerce insurgent

August 2023



This report is part of Momentum Works' ecommerce coverage

Local coverage

Ecosystem development

Regional coverage

Global disruptors



Burning questions, report enquiries, customised insights

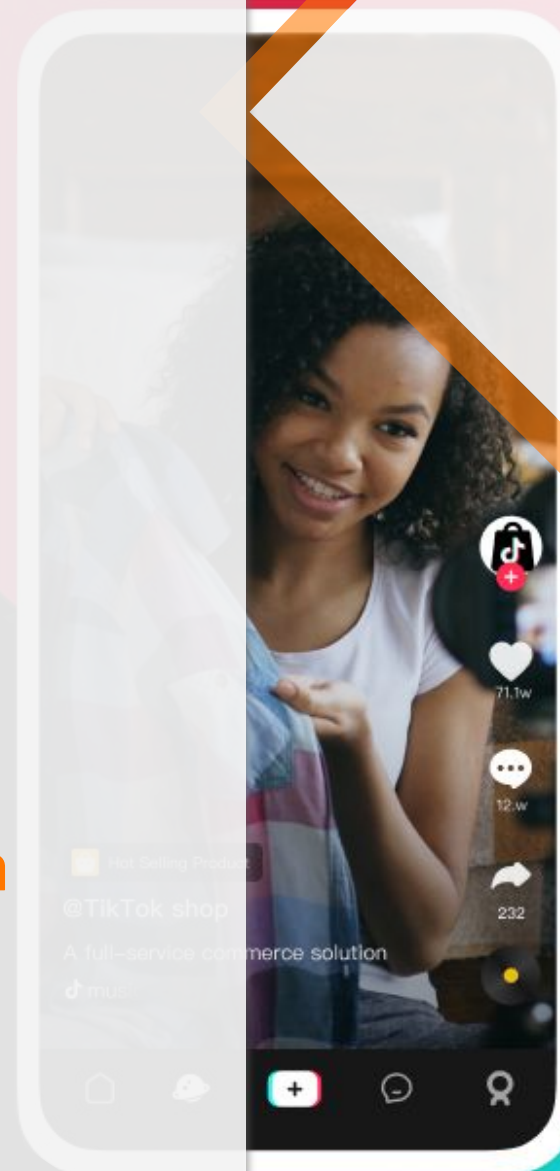
Get in touch:
hello@mworks.asia

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1. Introduction
2. Key questions about TikTok Shop
3. Conclusion and perspectives

Bonus: How should brands work with TikTok (Shop)?

* The bonus material would be provided in a separate file



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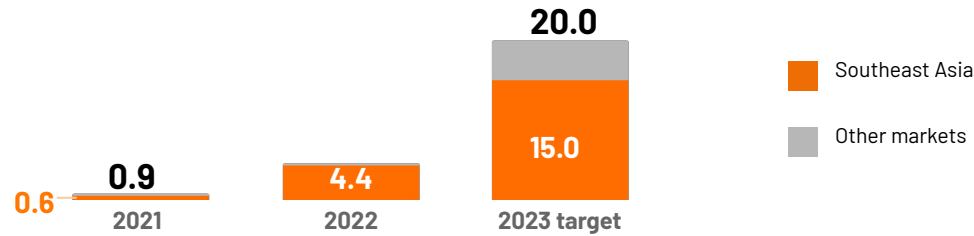
Why are we doing this report?



1

TikTok Shop has demonstrated impressive growth

GMV (in US\$ B)



2

TikTok Shop has expanded into 9 markets as of 2023



3

TikTok Shop is joined by other Chinese-owned ecommerce platforms (Temu, SHEIN, AliExpress etc.) to reshape global ecommerce

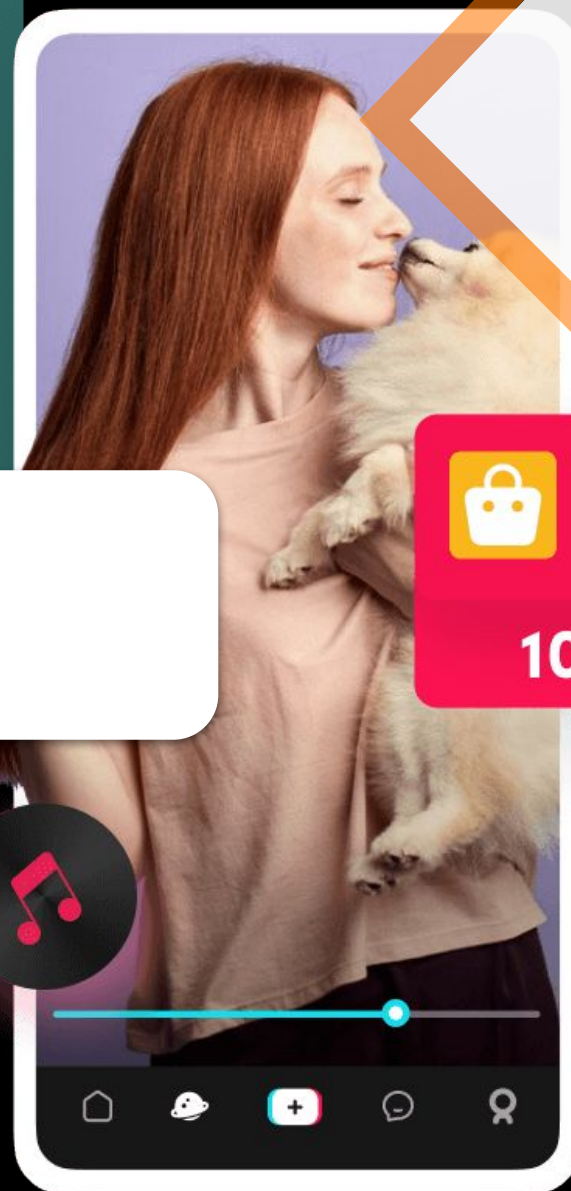


In this report, we decode:

- Why is TikTok **betting so heavily on ecommerce** ?
- What is TikTok's **strategic focus** in ecommerce ?
- What are the **key differences** between TikTok Shop and other marketplaces?
- What product categories **sell well** on TikTok?
- Would **North American consumers** watch videos and buy things on TikTok?
- How can TikTok **build its ecosystem**?

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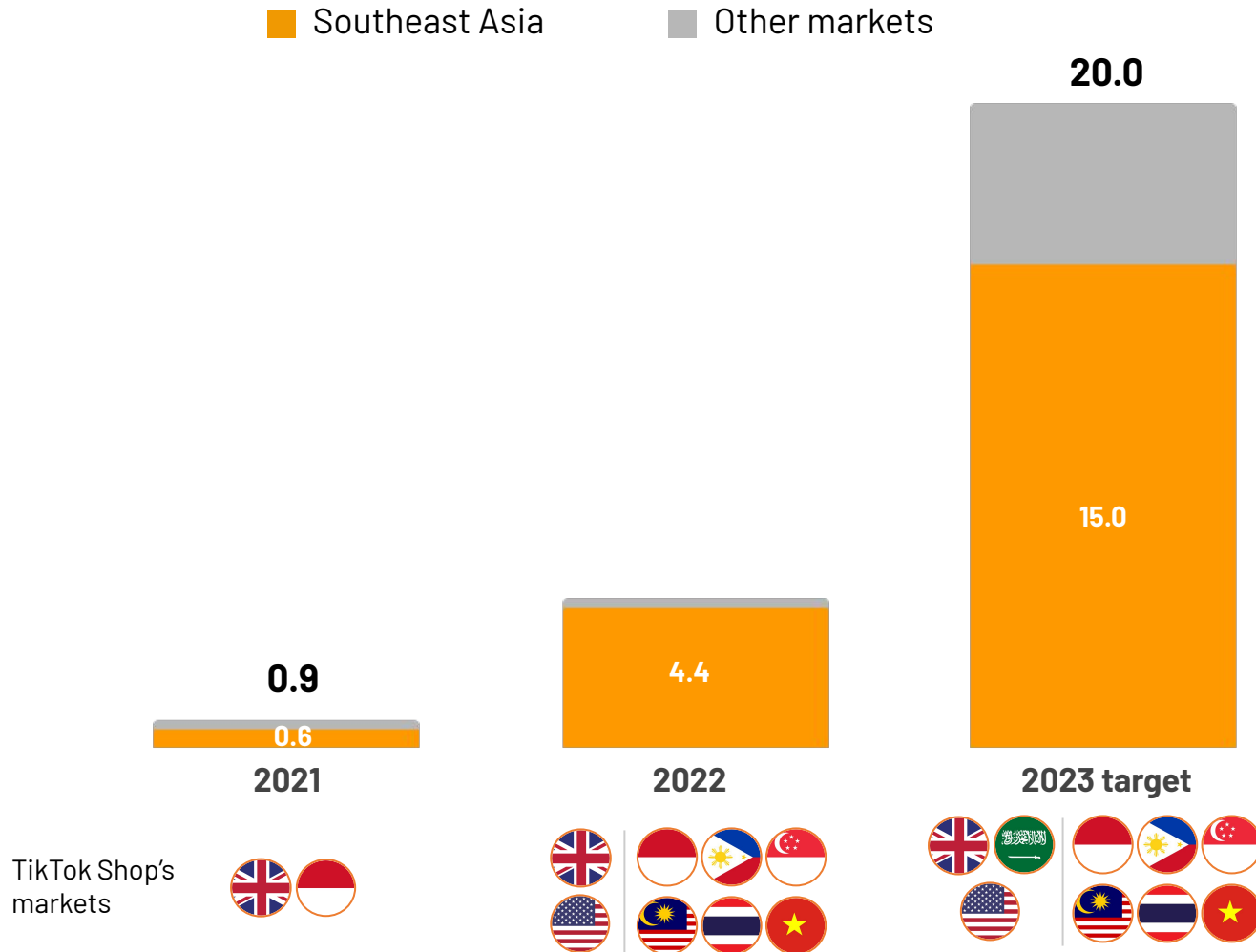
1. Introduction



TikTok Shop – the social platform’s push into ecommerce



TikTok Shop global GMV (in US\$ B)



In 2022, **TikTok's Monthly Active Users (MAU)** globally **exceeded 1 billion**. How to monetise its user base, as well as the billions of hours spent on the platform, has become a key priority for TikTok, and its parent ByteDance.

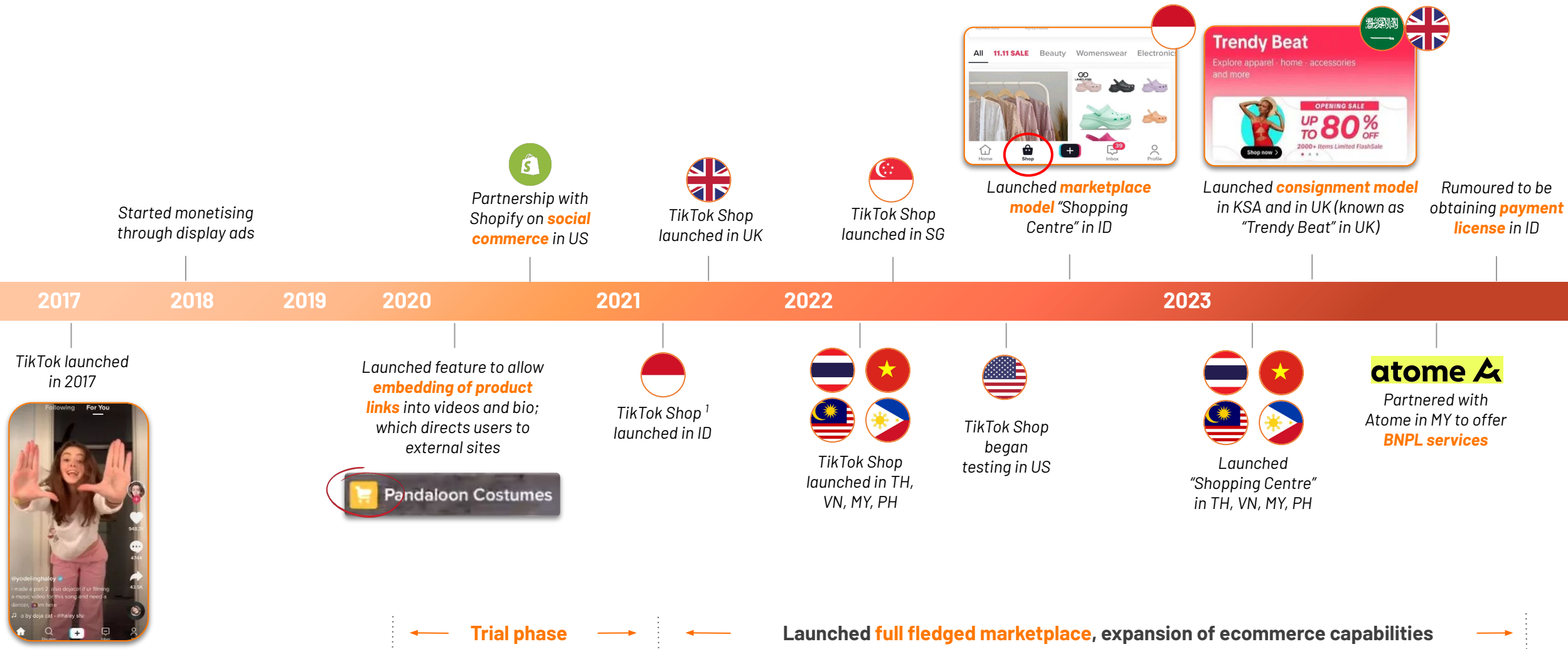
Unlike other social & content platforms including Meta (Facebook), ByteDance seems to be **very determined to pursue ecommerce as a key monetisation pillar**, globally.

Following the growth in **Indonesia** (and trial in the UK), TikTok Shop expanded into 7 more countries: **TH, VN, MY, PH, SG, US and KSA**, with Southeast Asia contributing most of the GMV. It targets to triple its Southeast Asia GMV to \$15B in 2023.

“We today have more than 2 million sellers selling their wares on TikTok Shop here in Indonesia ... we are going to invest billions of dollars in Indonesia and Southeast Asia over the next few years.”

— Shou Zi Chew, TikTok CEO

TikTok's venture into ecommerce is nascent but burgeoning



1. TikTok Shop's initial offerings include the yellow shopping cart which allow users to directly purchase products through TikTok as well as product catalogues found within business profiles

On the ground in Southeast Asia, TikTok has inspired a live commerce gold rush



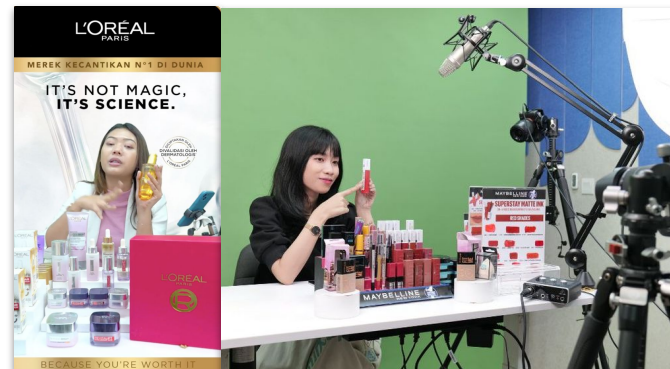
TikTok holding multiple seller onboarding events for its consignment model targeting the Middle East market



TikTok Shoppertainment Summit 2023 in Jakarta, Indonesia where TikTok explored content & commerce opportunities, and pledged investment commitments



Ecommerce enablers and MCNs renting houses with multiple rooms as live streaming centres across Southeast Asia



L'Oréal has built 14 live streaming studios inside its Jakarta office

Manufacturers, sellers, importers and distributors, many of whom are of Chinese origin, have been joining **the gold rush**, profiting from the **low cost of customer acquisition and various platform subsidies** for the early stage.

Agencies, including self-styled Multi-Channel Networks (MCNs) (see page 34 for more information), have acquired **arrays of sites and hired dozens if not hundreds of hosts to livestream**.

Most TikTok sellers and agencies we spoke to admit that **no one has yet found a formula to systematically improve the results**, as some had achieved on Douyin in China.

They, however, emphasise that they **could not afford to waste the time window** before TikTok raises acquisition costs and withdraws most of the subsidies.

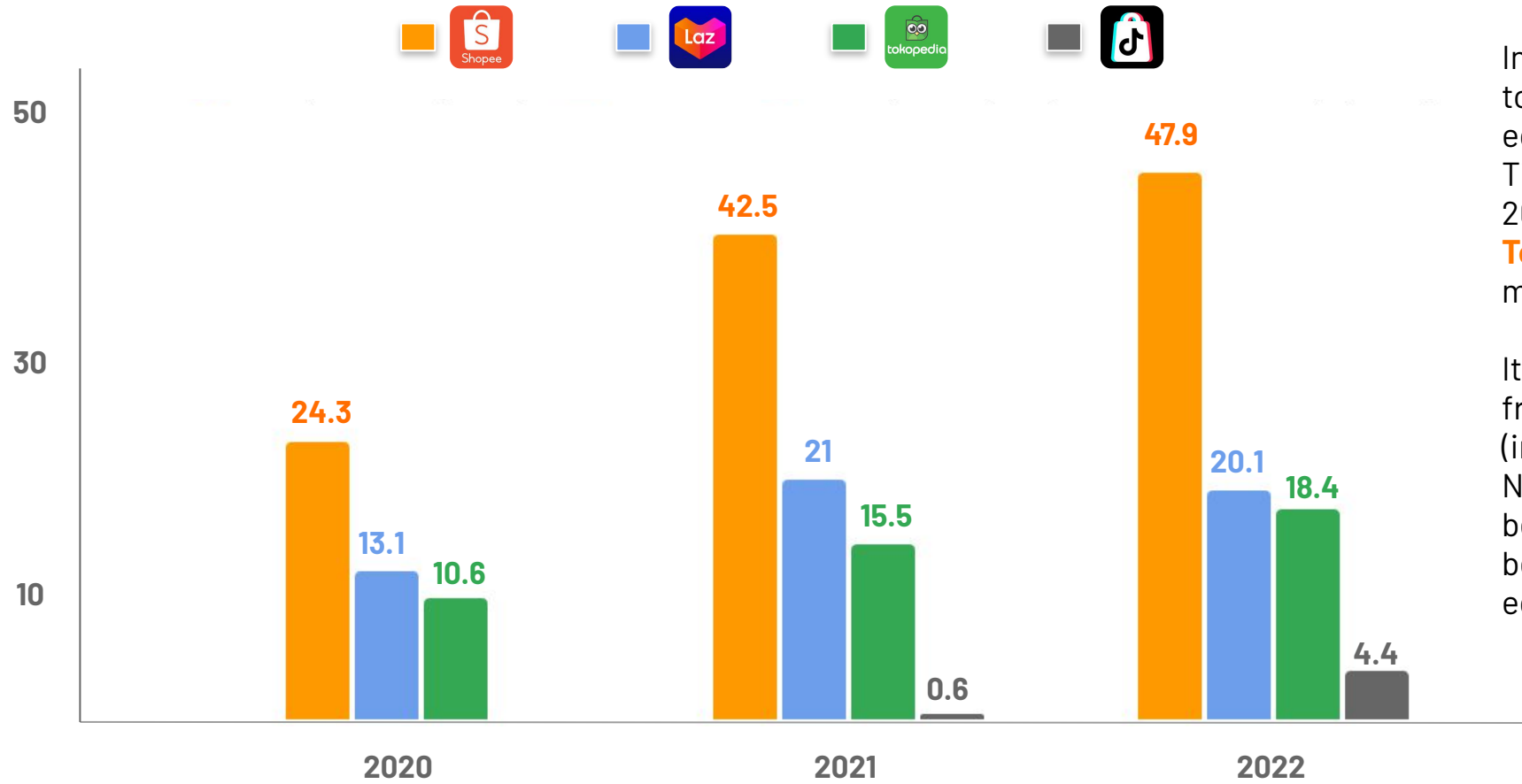
Therefore, **volume and brute force are the rules of the game**, for now. This might not last long.

TikTok has demonstrated impressive growth in SEA, its largest market



GMV of key ecommerce platforms in SEA (in US\$ B)

GMV estimated here includes all paid orders, including cancelled, returned and refunded orders.



In less than 3 years, **TikTok Shop** managed to establish itself as a meaningful ecommerce platform in Southeast Asia. TikTok Shop's target to triple its GMV in 2023 will put it **on par with Lazada and Tokopedia**, which have been around for more than a decade.

Its ascent seems **chaotic, with doubts** from the ecosystem and even some key (internal and external) stakeholders. Nonetheless, thus far the **leadership** has been **determined**, and **organisation** has been **adaptable**, in this pursuit of ecommerce.

For more on ecommerce in Southeast Asia:



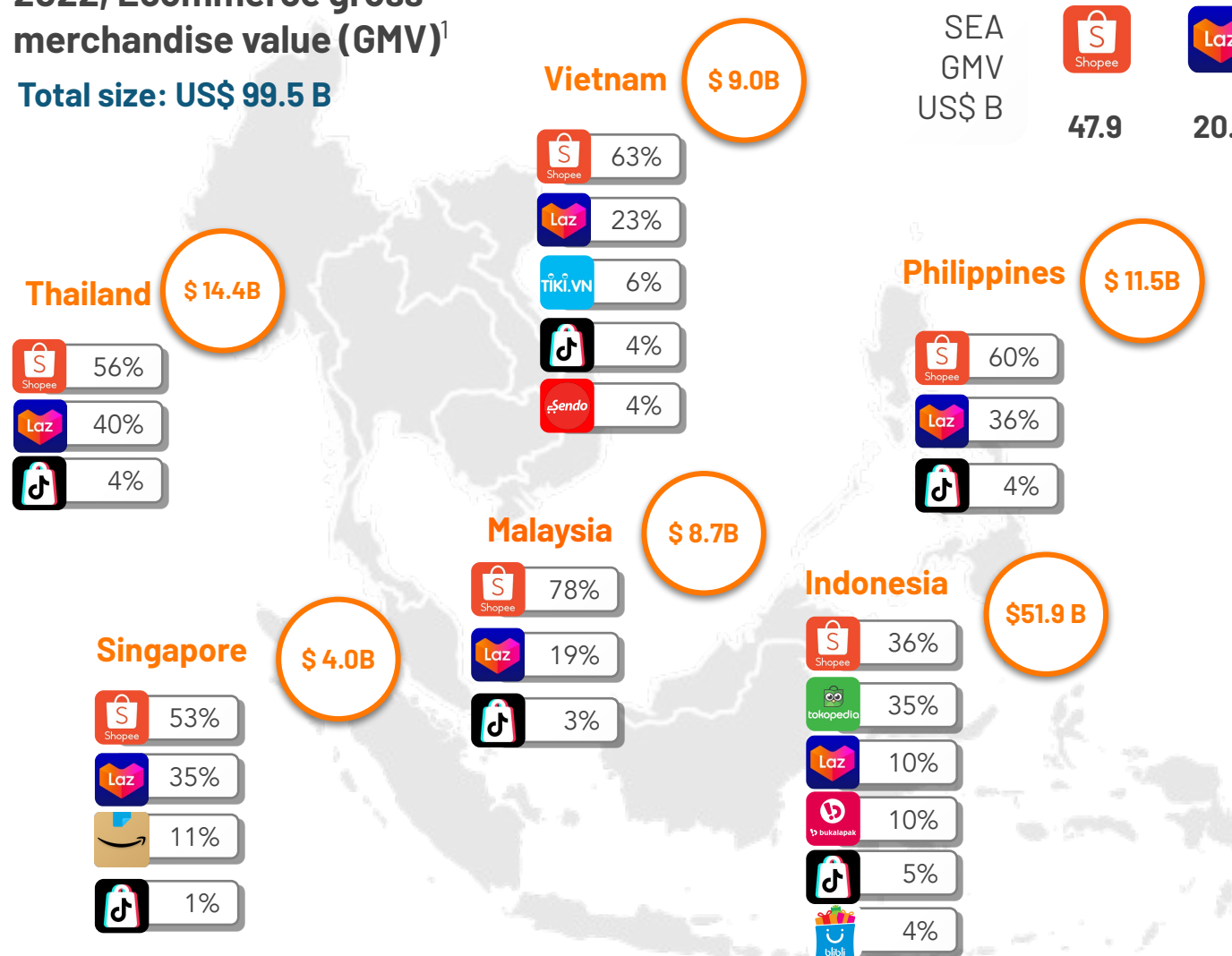
Ecommerce in Southeast Asia
- a report by Momentum Works

TikTok Shop is trying to close the gap with leading platforms Shopee & Lazada



2022, Ecommerce gross merchandise value (GMV)¹

Total size: US\$ 99.5 B

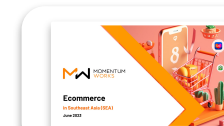


In 2022, **TikTok Shop** expanded from Indonesia to cover all six major markets in Southeast Asia. For the whole year of 2022, TikTok Shop's market share remains low single digits in all these markets.

However, it is important to note that in most of these markets, TikTok Shop **started from zero** at the beginning of the year - and in Indonesia, it already achieved **\$10 million daily GMV** by the end of 2022.

The growth continued in 2023, with recent indications that in multiple markets TikTok Shop GMV run rate for 2023 is **approaching that of Lazada**.

For more on ecommerce in Southeast Asia:



Ecommerce in Southeast Asia
- a report by Momentum Works

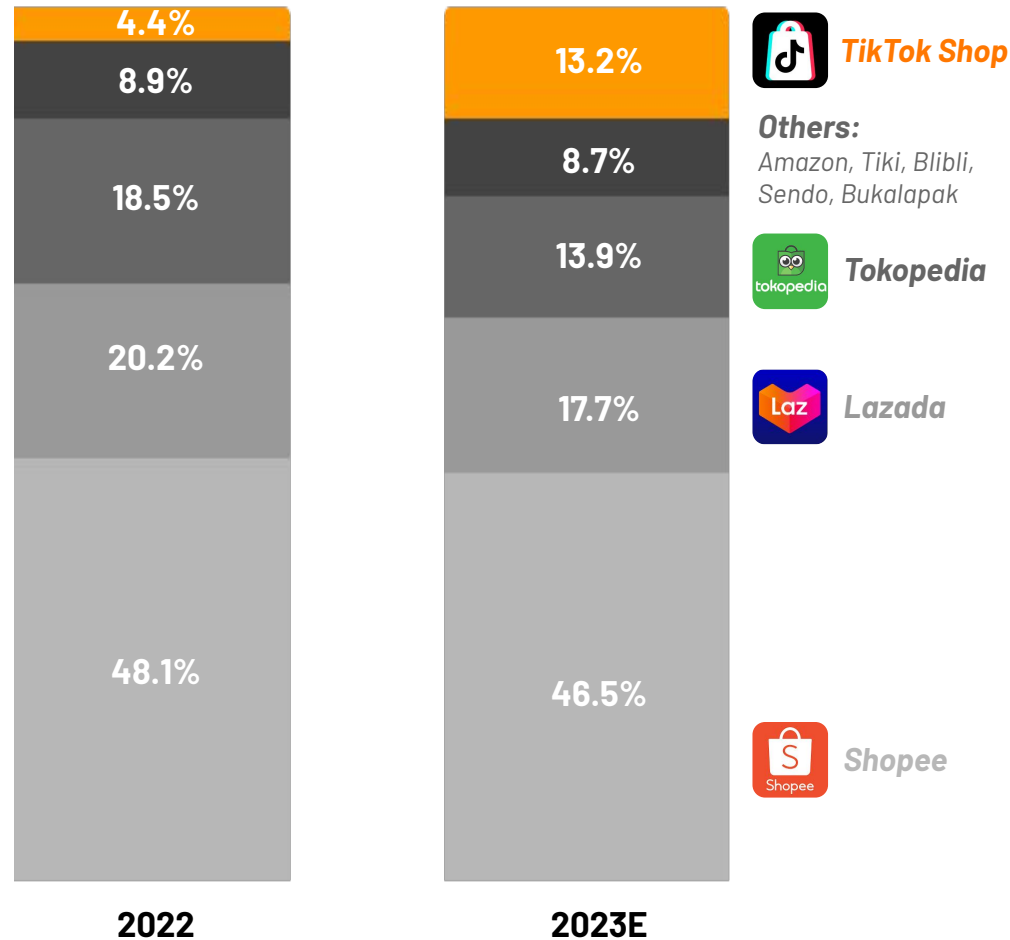
1. The 2022 GMV estimation by Momentum Works combines on-the-ground sources including the platforms, merchants / brands, logistics players, enablers and other stakeholders. This estimate covers only transactions on Shopee, Lazada, Tokopedia, Bukalapak, TikTok Shop, Blibli (excludes lifestyle and travel), Tiki, Amazon Sg and Sendo. GMV includes all the orders where payment is made, including cancelled, returned and refunded orders.

Source: Industry interviews; Momentum Works estimates

Is TikTok Shop a threat to incumbent marketplaces?



SEA ecommerce market share by GMV

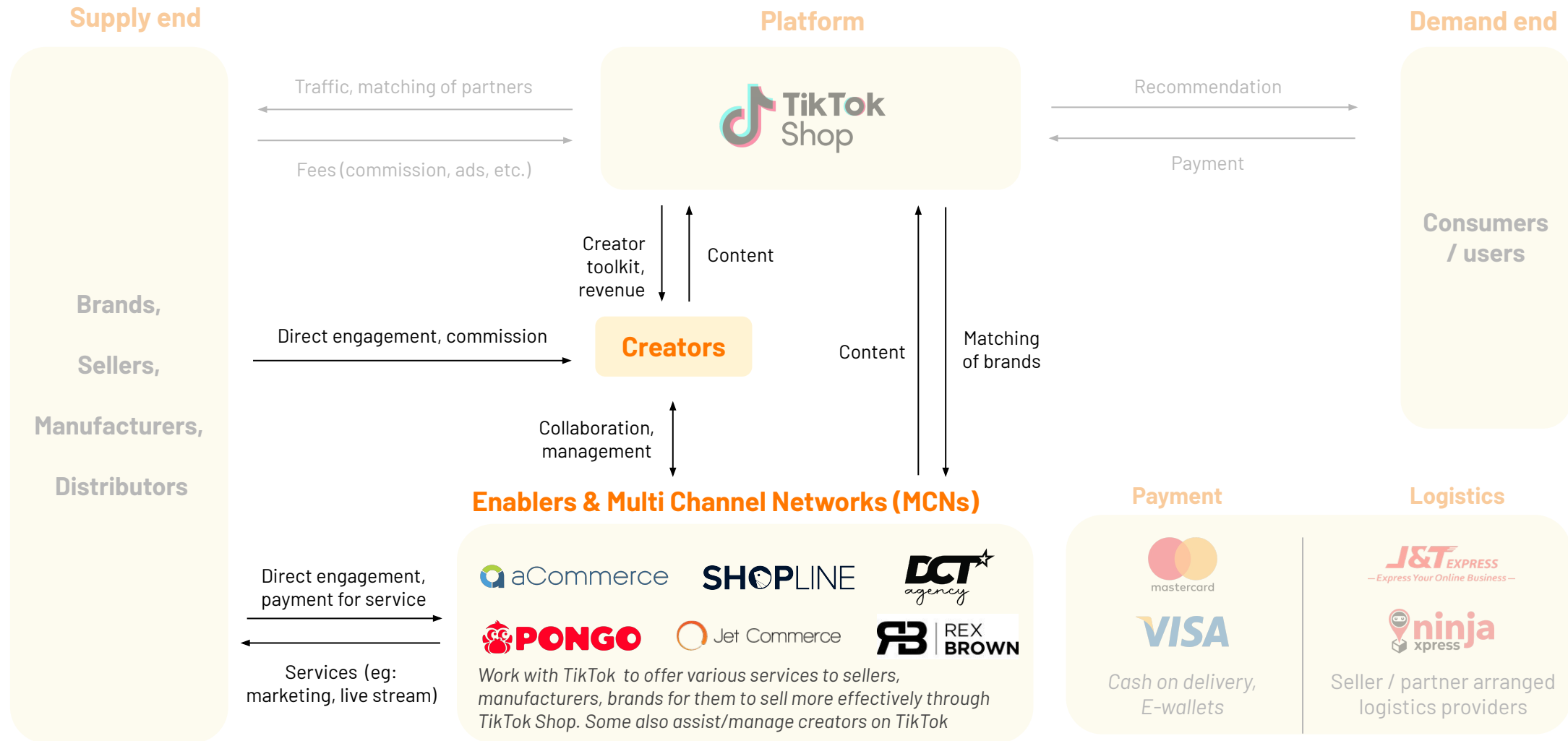


Is TikTok Shop a threat to incumbent ecommerce marketplaces, including **Shopee & Lazada** in Southeast Asia, as well as **Amazon** in the US and Middle East?

We think the answer is yes - while TikTok Shop now still has a **small base**, and its organisation can be **chaotic**, the company has proven to be **committed**, and fast **adapting**. In addition to videos and live, it has also been adding **capabilities** (e.g. "Shop" tab marketplace, payment in Indonesia etc.) to **narrow the gap** with traditional marketplaces.

The threat, or competitive pressure, is **dynamic and can be evolving fast**. Even if TikTok Shop might not make it after all, incumbents could ill afford to be complacent.

TikTok Shop has a more complex ecosystem compared to traditional marketplaces



Content handling parties like the Creators and MCNs contribute significantly to TikTok Shop. This is in addition to the ecommerce enablers that traditional marketplaces also rely on.

The creation of viral products (爆款) is crucial in generating sales on TikTok



A winning formula on TikTok Shop:

bào
爆

Explosive /Viral/ Popular

kuǎn
款

Products

► What are viral products (爆款) ?

TikTok is a breeding ground for the creation of viral products (爆款). These products usually become **extremely popular** and highly sought after by consumers within a short period of time, which in turn generates explosive sales for the sellers.

► How does TikTok help in creating viral products (爆款)?

TikTok continuously **triggers consumers' interest** through personalised content matching, with functions in place (such as commenting, reposting and tagging and algorithm push) that make the content **highly interactive** and **easily disseminated** to the masses.

It not only stimulates users' **shopping desire** but also concentrates massive amounts of traffic into particular products, eventually leading to the creation of viral products.

► Importance of creating viral products (爆款)?

Having viral product(s) can help boost the popularity of the store, which causes the TikTok algorithm to **distribute more consumer traffic** to any content or products put up by the store. This in turn could potentially **increase the engagement and sales of other products** promoted by the same store.

Note: Viral products (爆款) is not a strategy unique to TikTok. It is also used by many ecommerce platforms in China (Taobao, Pinduoduo etc) but Douyin/TikTok made this strategy popular.


Source: Industry interviews; Momentum Works insights

Most top viral products (爆款) on TikTok shop came from beauty & personal care



Best selling viral products globally by GMV in H1 2023




 **Skintific 5 pcs skincare set**
GMV: \$ 6M
Sales: > 200,000




 **Cryptic Killers game**
GMV: \$ 5.1M
Sales volume : > 190,000




 **Nature Spell Rosemary hair oil**
GMV: \$ 4.6M
Sales volume: > 200,000



 **BodyAid whitening toothpaste**
GMV: \$ 4.3M
Sales volume: > 310,000



 **The Originote 6in1 skincare kit**
GMV: \$ 4.2M
Sales volume: > 360,000

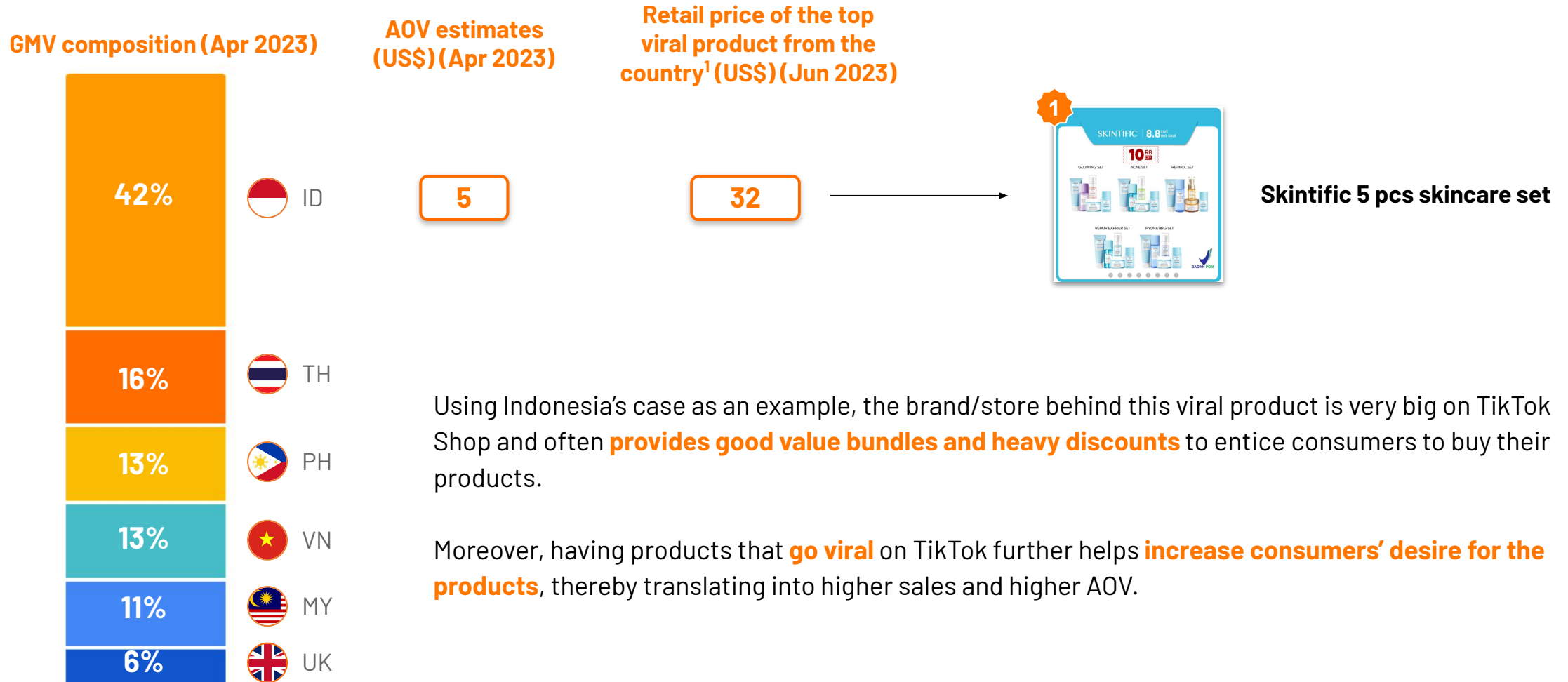
The top viral products are almost always in the **beauty and personal care category**, especially in Southeast Asia.

The reasons why certain categories (such as Beauty and Personal Care) are better suited for TikTok Shop than others (like FMCG & electronics) would be covered in a later section (see pages 37-38)

Hot Start?

When TikTok Shop first started in 2020 in Indonesia - the top selling categories were **FMCG** (e.g. Indomee) and **electronics** (i.e. from JD.ID).

Viral products (爆款) could help raise overall AOV on TikTok Shop



1. Based on the top best selling viral products globally by GMV in H1 2023 Source: Tabcut; FastData; Momentum Works Insights

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Key questions answered



\$\$\$+



100w+

These (crowd-sourced) key questions are addressed in this section

- 1 Why is TikTok **betting so heavily** on ecommerce? Pg. 18 - 22
- 2 What is TikTok's **strategic focus** in ecommerce? Pg. 23 -27
- 3 What are the **key differences** between TikTok Shop and other marketplaces? Pg. 28 - 35
- 4 What **product categories sell well** on TikTok? Pg. 36 - 38
- 5 Would **North American** consumers **watch videos and buy things**? Pg. 39 - 45
- 6 How can TikTok **build its ecosystem**? Pg. 46 - 48

1. Why is TikTok betting so heavily on ecommerce?

TikTok has a lot of users and users spend a lot of time on it



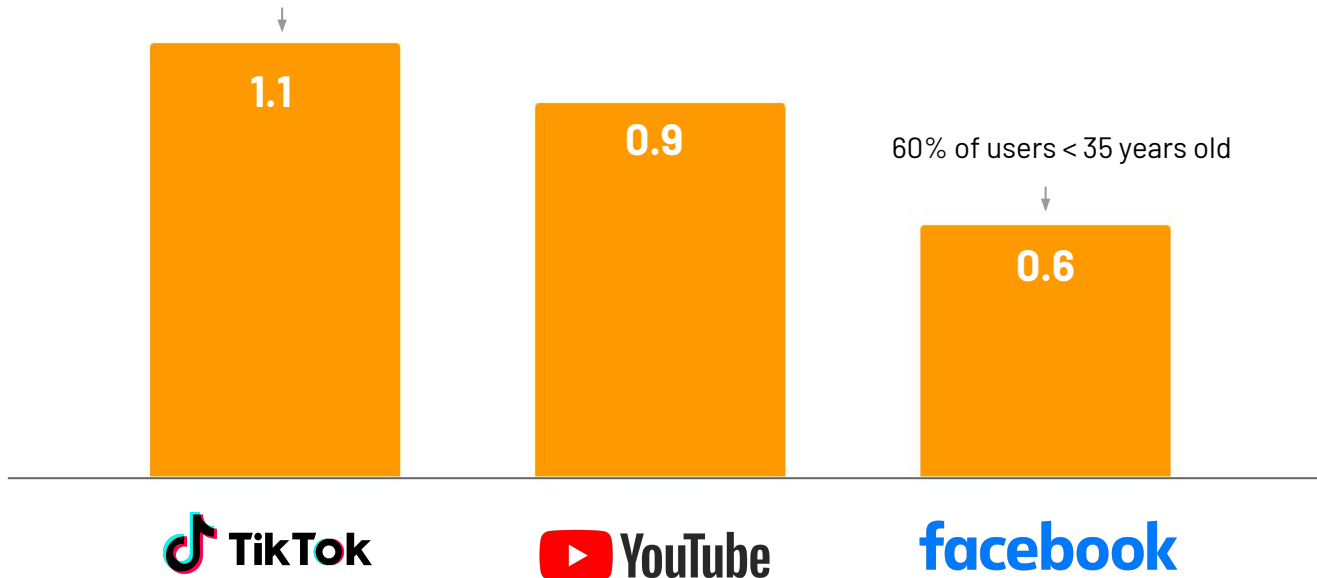
Amongst social apps, TikTok has the longest avg. time spent

Global, 2022

Avg. time spent per user per day (hr)¹

Popular amongst young audience
(73% of users < 35 years old)

60% of users < 35 years old



As a social and content platform, TikTok is undoubtedly very successful. It has surpassed **1 billion** Monthly Active Users globally, and **its users spend more time on the platform than Facebook**.

With such user numbers and time spent, the next priority is how to **monetise this massive user traffic**. Evidently, global tech / social platforms like Meta and Tencent have shown various paths to monetisation, including **advertising, ecommerce / local services** and **gaming**.

It comes down to which approach carries better long-term prospects in terms of **growth and margin**, as well as the **synergies with the core use case** (for both conversion and user stickiness).

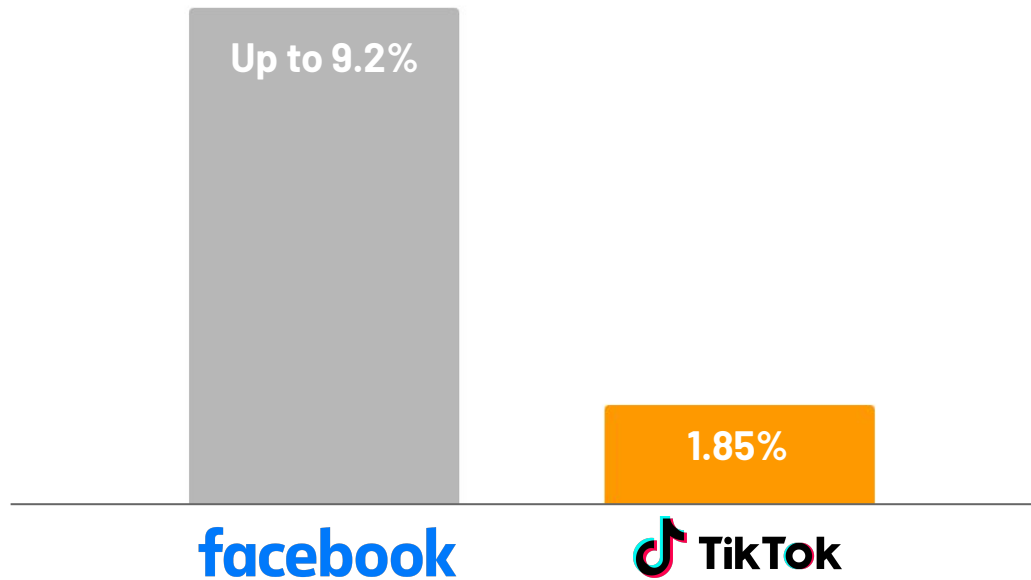
1. Data from data.ai, based on Android users, between 1 Oct and 31 Dec 2022
Source: Data.ai; Industry interviews; Momentum Works insights

...but it has not been able to monetise as effectively as Facebook in advertising



TikTok's ads conversion rate lags behind Facebook's¹

Ads conversion rate (%)¹



Ads as % of group revenue²

~ 98%

< 75 %

As platforms with massive traffic, **advertising is the key pillar of monetisation** for both Meta (Facebook) and ByteDance (TikTok), contributing 98% and 75% to their respective group revenue.

However, TikTok's **advertising conversion rate¹ lags behind Facebook** (<2% vs. Facebook's >9% in general), which experts often attribute to its **younger user base and full-screen video format** that makes TikTok less ideal for conversion.

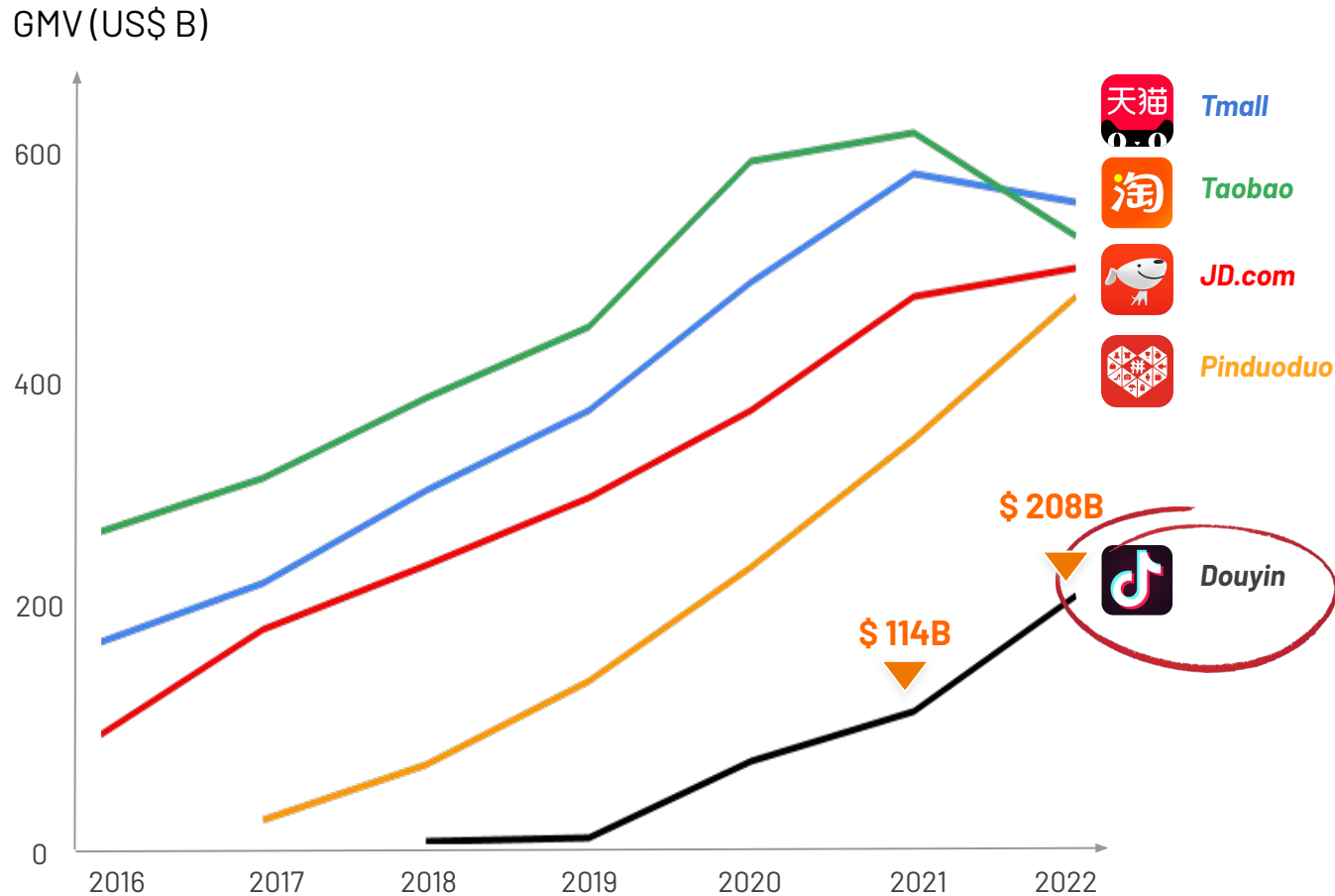
Clearly, TikTok's decision to **diversify from advertising into another key monetisation driver** is both strategic and necessary.

1. % of individuals who take a desired action (e.g.: make purchases, do phone calls, send messages) out of the total number of individuals who click on the ad. 2. Revenue from ads as a % of total revenue of Meta / Bytedance
Source: Meta, Bytedance disclosure; industry interviews; Momentum Works insights

TikTok's sister company Douyin in China has made ecommerce work



Douyin ecommerce took just 3 years to reach \$100B GMV



TikTok's equivalent Douyin, which targets the domestic market in China, has shown that monetisation through ecommerce can work.

Since launching ecommerce in 2018, Douyin has grown its **GMV and market share rapidly**. By 2022, its annual GMV already surpassed \$200 billion, or almost 40% of Taobao, Alibaba-owned long standing ecommerce champion in China.

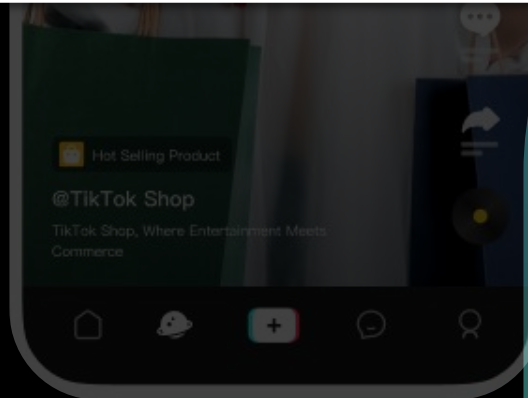
Whilst no exact performance of Douyin is published, multiple data points we have verified seem to suggest that it has a **higher take rate compared to Taobao, Tmall and Pinduoduo**.

If TikTok can also prove that it can help manufacturers, brands and sellers **directly convert user attention into sales**, it will potentially unlock hundreds of billions of dollars of value (and **take a good cut**).

Why is TikTok betting so heavily on ecommerce?

“If TikTok can also prove that it can **help manufacturers, brands and sellers directly convert user attention into sales**, it will potentially **unlock hundreds of billions of dollars of value** (and take a good cut).”

2. What is TikTok's strategic focus in ecommerce?

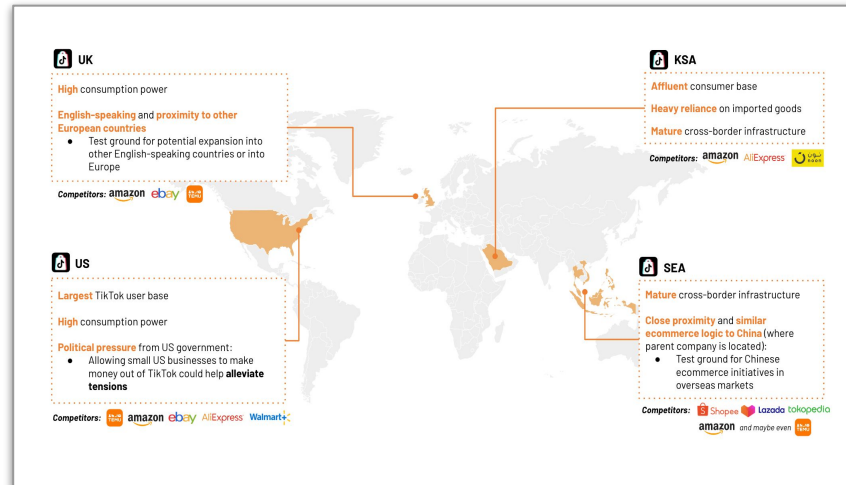


2 key priorities for TikTok Shop: scale and conversion



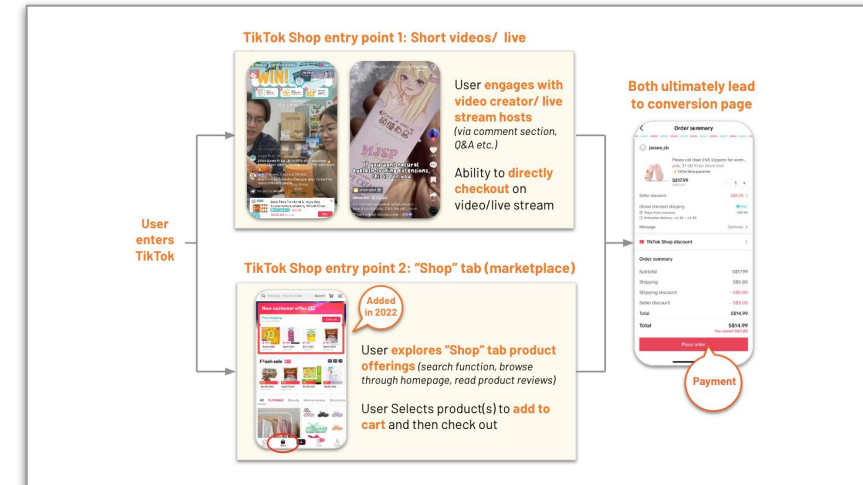
1

Growing ecommerce scale



2

Maximising user conversion



For TikTok's ecommerce ambitions at this stage, the important metrics are undoubtedly **scale and conversion**. **Monetisation or take rate is more of a cost lever** (i.e. to regulate how much investment is acceptable) in the short term before meaningful scale is achieved.

Scale: Why TikTok chose its current markets



UK

High consumption power

Both English-speaking and **European**

- Test ground for potential expansion into other affluent English-speaking countries (e.g. CA, AU, NZ) or Mainland Europe

Competitors:



US

Largest TikTok user base

Highest consumption power globally

Political pressure from US establishments

- Allowing small US businesses to make money from TikTok Shop could help **alleviate tensions** because of its Chinese parentage

Competitors:



Spain & Brazil

Launch of TikTok Shop (previously scheduled for mid-2023) **postponed**, with resources and manpower diverted to the US and other core markets

Competitors:



KSA

Affluent consumer base

Heavy reliance on imported goods

Mature cross-border infrastructure

Competitors:



SEA

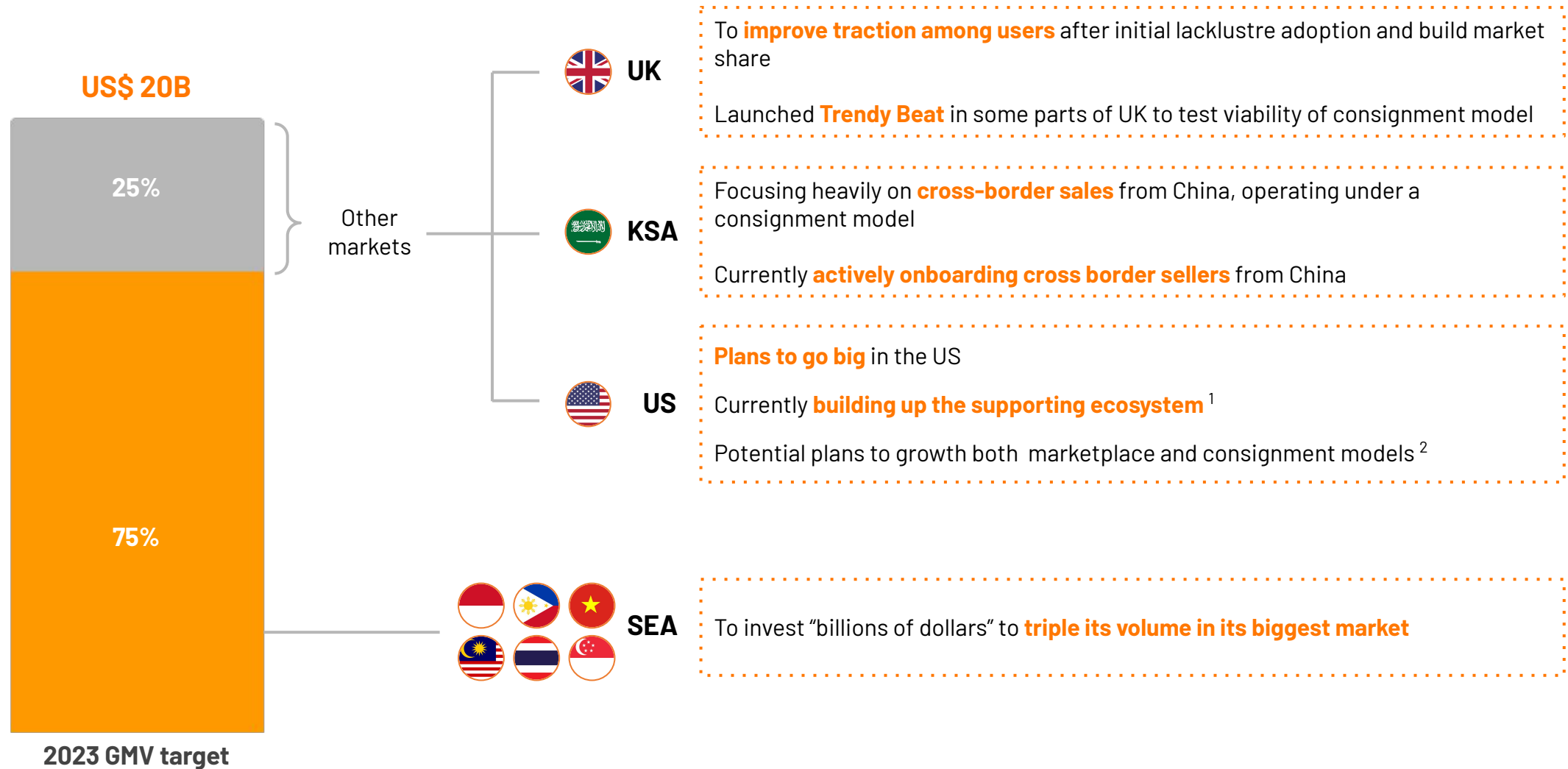
Mature cross-border infrastructure

Close proximity and **similar ecommerce logic to China** (where parent company ByteDance is located):

- Test ground for Chinese ecommerce initiatives in overseas markets

Competitors: and maybe even

Scale: \$15 billion target GMV for Southeast Asia alone



1. TikTok established US warehouse partnerships with logistics companies; 2. Trademark application for "Trendy Beat" has been filed in May 2023.

Source: Industry interviews; Momentum Works insights

Conversion: multiple customer entry points, and more



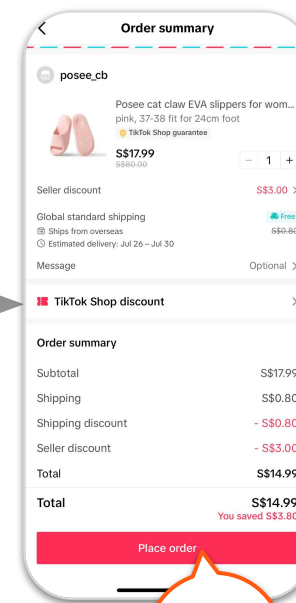
TikTok Shop entry point 1: Short videos / live streams



User **watches content**, engages with video creators/ live stream hosts (via comment section, Q&A etc.)

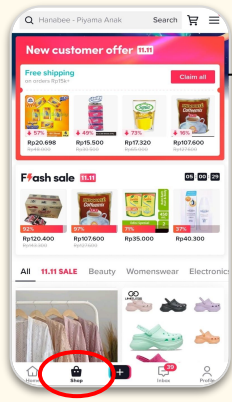
Ability to **directly checkout** on video/live stream

Both ultimately lead to checkout page



Payment

TikTok Shop entry point 2: "Shop" tab (marketplace)



Added in 2022

User **explores "Shop" tab product offerings** (search function, browse through homepage, read product reviews)

User selects product(s) to **add to cart** and then checks out

The addition of a marketplace came about as TikTok realised the **limitations of relying solely on short videos/live streaming**:

- 1) There is a headroom cap towards the number of product videos/live streams that can be pushed to users before it **affects overall engagement and user experience** (remember: users come to TikTok for entertainment);
- 2) Merchants with limited or no content production/live streaming capabilities are unable to sell effectively on TikTok, which **limits the size of the seller base and product offerings**.

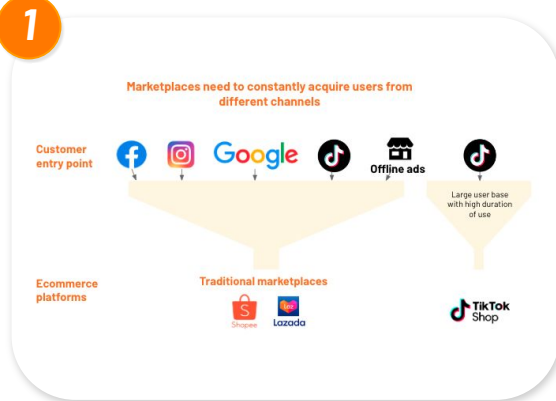
Ultimately, the 2 entry points into TikTok Shop serve to **complement each other** to help increase the conversion rate of TikTok users.

3. What are the key differences between TikTok Shop and other marketplaces?

There are 4 key differences between TikTok Shop and other marketplaces



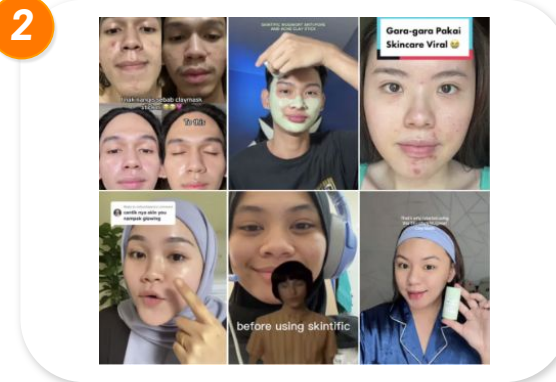
1



Natural traffic

saving acquisition and retention costs

2



Recommendation-based

rather than search-based

3



Content-driven

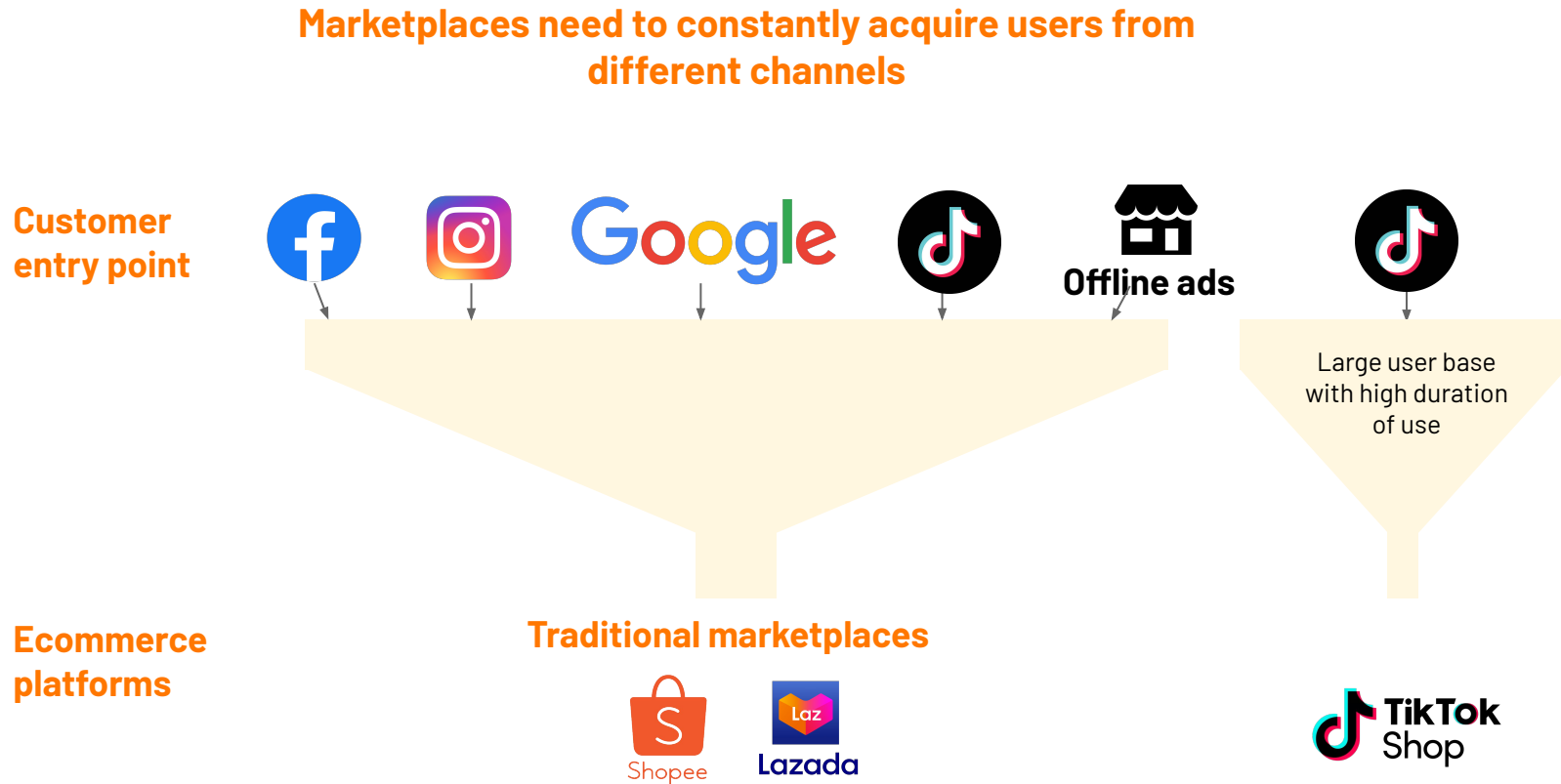
content handling parties play key roles

4



No (payment & fulfillment) infrastructure (yet)

Natural traffic: saving acquisition and retention costs



Ecommerce platforms dedicated a lot of costs towards **customer acquisition and retention** - because unless a platform becomes the default shopping option (**top mind share**) for consumers, it will need to **invest in where the customers are** (e.g. on Facebook, Google etc.).

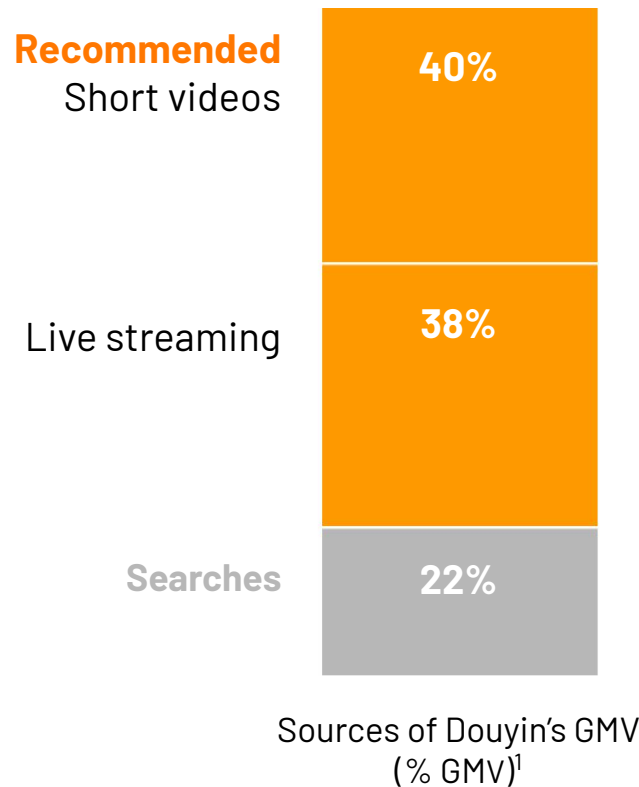
TikTok, as a social/content platform itself where hundreds of millions of users come for entertainment on a daily basis, does not have that problem.

The issue it has, however, is **how to allocate its massive consumer traffic**. i.e. how much share of screens should be allocated to ecommerce, as opposed to advertising, entertainment or other use cases.

Recommendation-based: rather than search-based



~80% of Douyin GMV is driven by recommended content



Unlike traditional marketplaces where consumers search for products, TikTok's ecommerce sales are primarily driven by pushing **recommended content** to users.

This, however, presents a **growth challenge / dilemma**: too much ecommerce content relative to entertainment content will affect user experience.

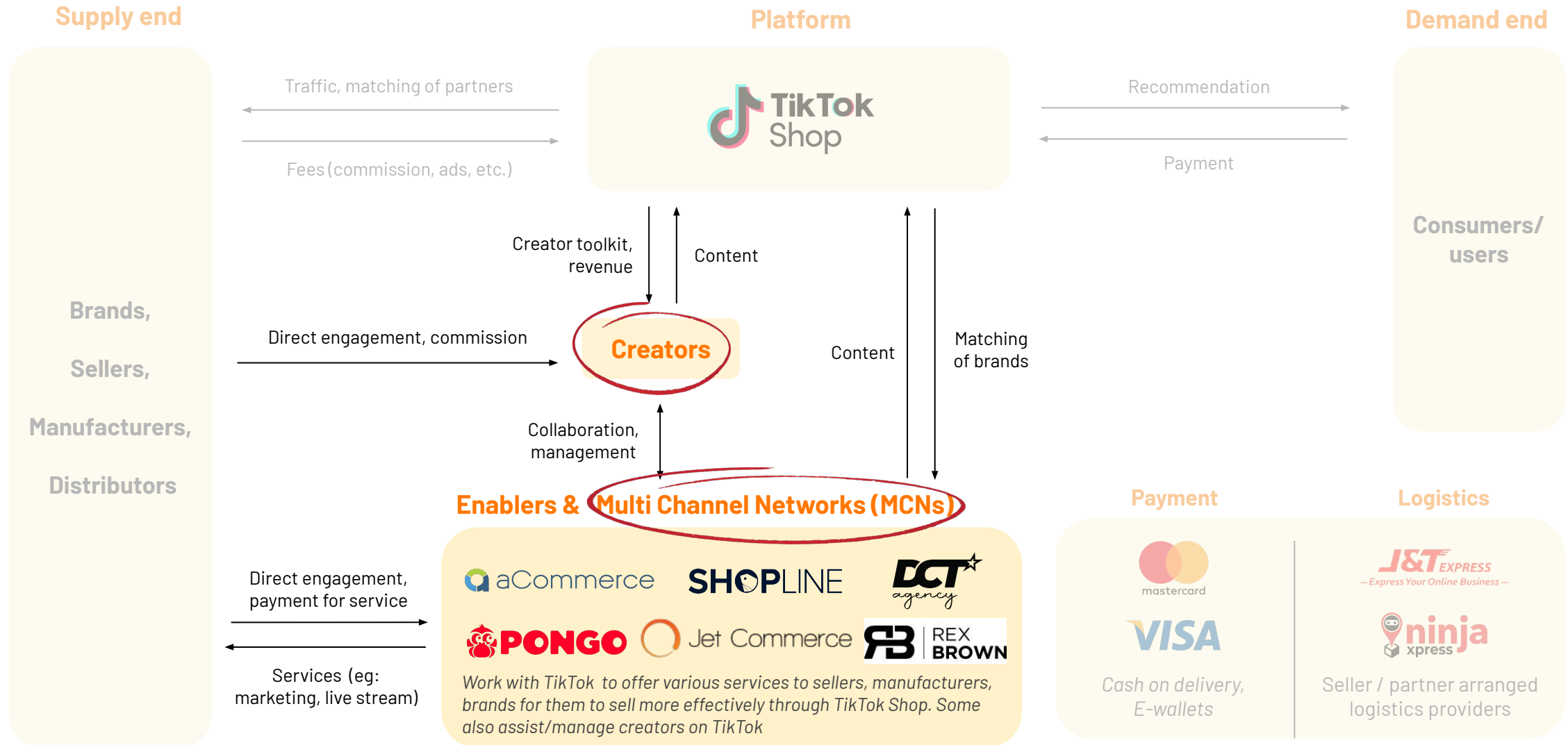
TikTok's introduction of **"Shop" tab** is a move to address this challenge (as highlighted on page 27). Thus far searches contribute to less than ¼ of Douyin total GMV, which is not insignificant by itself.

Whether this ratio will grow further depends on the **strategic and operational choices** of Douyin, as well as the **evolving competitive landscape**: Taobao has invested successfully in live commerce, while Meituan is diving deep into live this year.

With this, we are observing a **convergence** in strategies: **marketplaces expanding into content** (i.e.: live streaming) and **TikTok expanding into marketplaces**.

1. During 2022's 11/11 shopping festival Source: Industry practitioners' interviews; Momentum Works insights

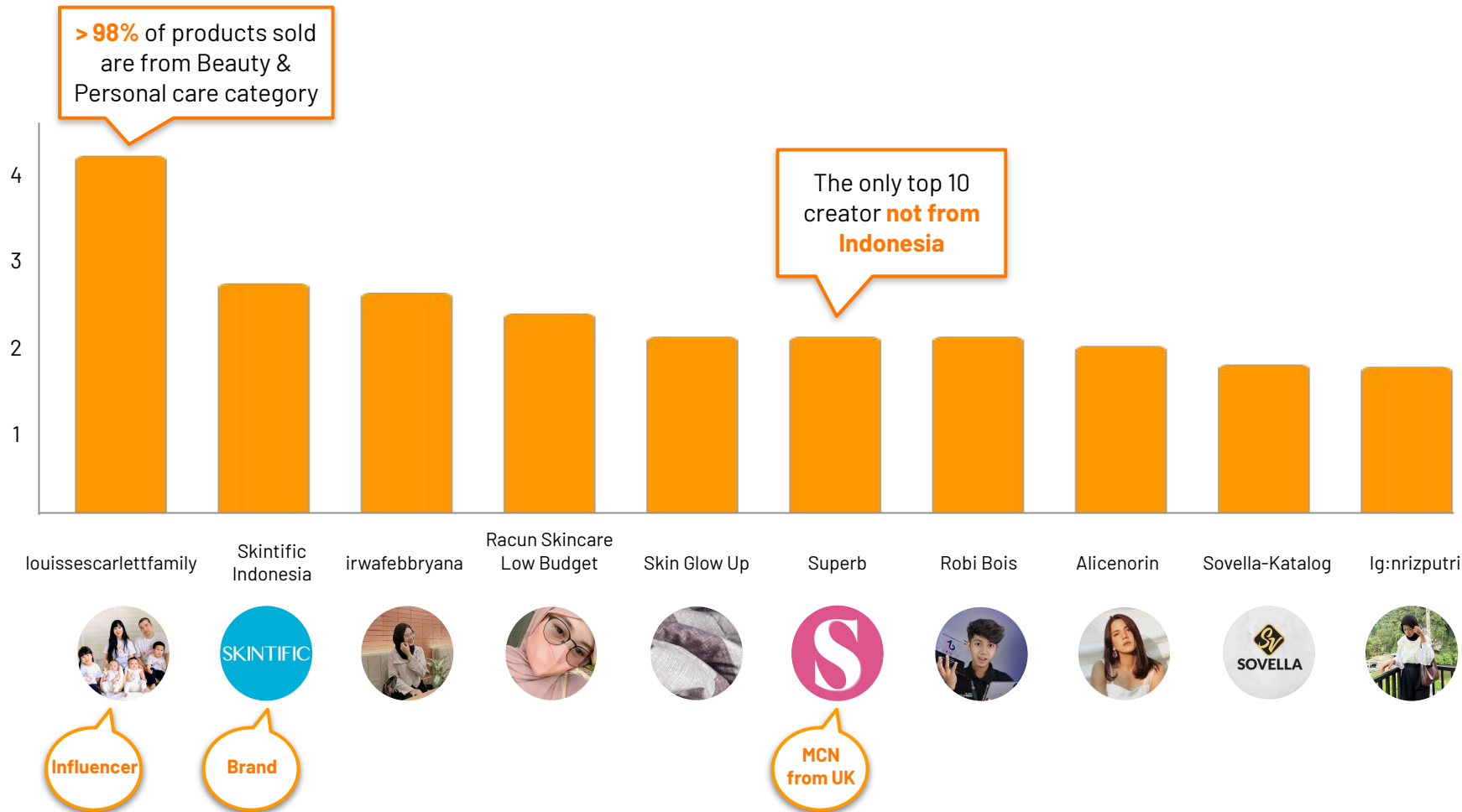
Content-driven: content handling parties play key roles (1/3)



Content-driven: Creators form the backbone (2/3)



Estimated GMV generated by top TikTok Shop creators in 2023 H1 (in million USD)



TikTok's creator community is made up of people from a **multitude of backgrounds** such as influencers, hosts under MCNs, brands/shops and more.

Worth noting that live streaming is actually a tough (and tiring) job - try talking to the camera for an hour.

While brands have the option to let their internal teams run the full content production (a method used by some brands operating on Douyin), they more often **collaborate with influencers and hosts (from MCNs)** to promote and sell their products on TikTok.

Content-driven: MCNs/enablers link creators, brands, and the platform (3/3)



1 MCNs (Multi-Channel Networks)

Incubate and manage **content creators / KOLs / celebrities**;

Offer assistance in areas such as training, content promotion, brand partner management, audience management, sourcing of quality and desired products at competitive prices etc.

2 Enablers

Manage **brands / companies / sellers**;

Offer assistance in areas such as shop management, marketing and promotions, fulfillment, customer service etc.

Some of them evolved into the Software-as-a-Service model instead of running heavy operations themselves



GIMmedia Sdn Bhd



Creator Relationship Management



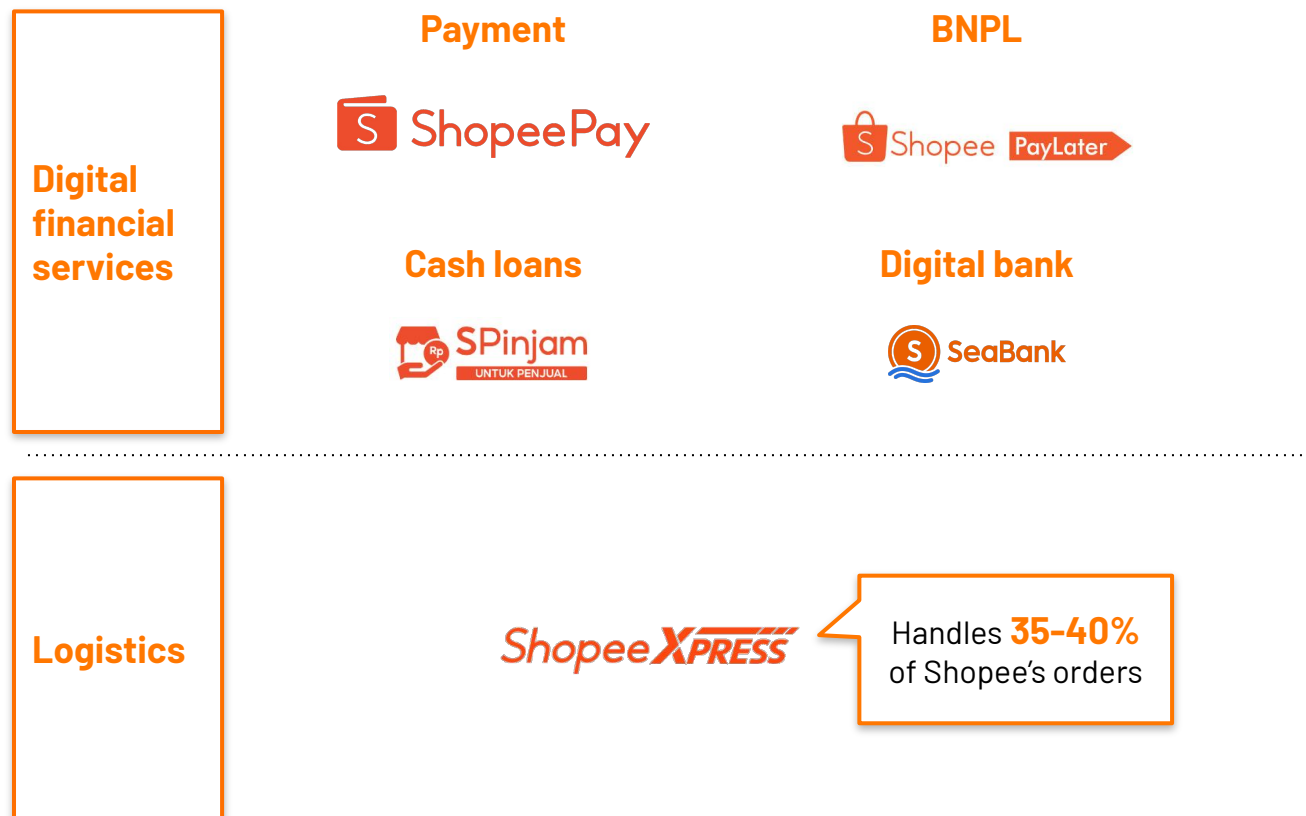
The **boundary between enablers and MCNs is starting to merge**.

Some are doing both as brands/manufacturers find it troublesome to work with different parties.

No (payment & fulfillment) infrastructure (yet)



Shopee has built large array of ecommerce (and ancillary) infrastructure



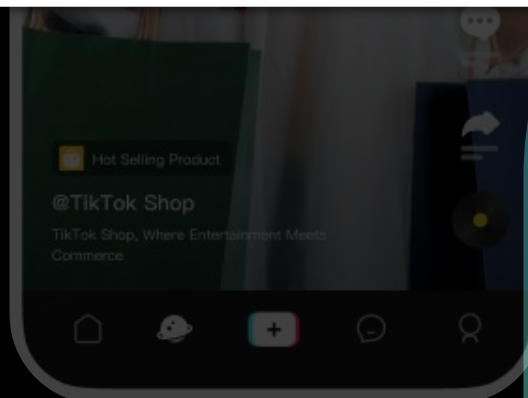
Incumbent ecommerce platforms like Shopee have the structural advantage of owning consumers' mindshare in ecommerce. They have also had a **headstart** in building in-house **logistics and payment** capabilities.

At scale, in-house logistics / payment provides **strong negotiation power** to squeeze on the costs paid to third party partners. This not only provides cost advantages, but also forms a **significant defensive moat**.

TikTok must have recognised this and will take steps to address it. The recent **Reuters report** on TikTok attempting to **acquire a payment licence in Indonesia** is one of the initiatives in this direction. It might want to acquire or invest in a logistics company in Southeast Asia at some point in time (not many options available).

That said, TikTok's **immediate priorities** will still be to **scale and conversion**, as highlighted on page 24.

4. What product categories sell well on TikTok?



Some categories are more suitable for TikTok Shop than traditional marketplaces



Non-standardised products (e.g.: fashion and accessories) are more commonly bought on TikTok as compared to standardised products (e.g. electronics)¹

Beauty & Personal care



Presence Very strong **offline** presence but **TikTok** is disrupting, at least in top tier cities

FMCG



Strong **offline** presence; intense **competition on online marketplaces** (many brands and distributors selling similar products, no pricing differentiation)

Electronics



Strong **offline** (at experiential centres) and **online presence** (#1 category by GMV on Lazada)

Fashion & accessories



Strong **online presence** (#1 category by GMV on Shopee) and **vertically-focused** platforms (e.g.: SHEIN) because of selection complexity

Home & living



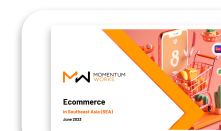
Strong **online presence** (#2 category by GMV on Shopee)

TikTok friendly?

Prod. demo



For more on ecommerce in Southeast Asia:



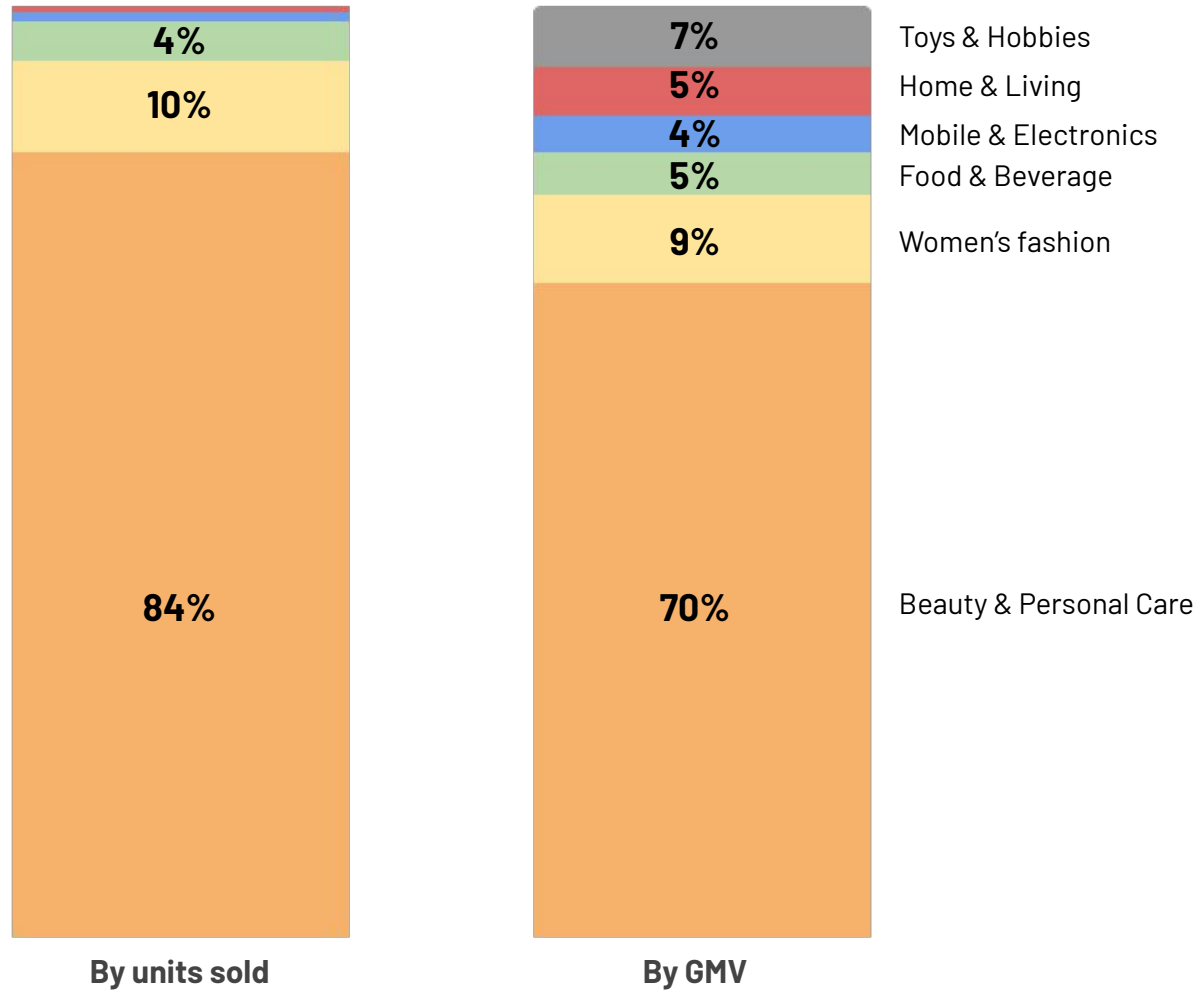
Ecommerce in Southeast Asia
- a report by Momentum Works

1. "Standard products" is a Chinese industry term referring to goods that are produced according to government standard catalogues - including electronics and mobile phones; "non-standard products", in contrast, refers to goods that vary greatly according to needs - including fashion, shoes etc.). Source: Industry interviews; Momentum Works insights

The video format makes it easier for certain product categories to sell on TikTok



Category distribution of the top 20 best selling products (2023 H1)¹



TikTok's video format makes it possible for sellers/KOLs to **showcase their products through realistic product demonstrations**, especially in livestreams where the demonstrations are done in real time.

Categories in which product demonstrations can be produced in **visually appealing or interesting formats** and can be **easily replicated on a large scale** would likely have a better reach and conversion rate.

Case in point- beauty & personal care products are extremely popular as product demonstrations can come in **multiple interesting formats** (e.g: makeup tutorials, skincare routines etc.) while **accurately showcasing the products' functionalities**. Moreover, these types of content are relatively easy to produce - content creators can readily film themselves using the products since beauty and personal care products are already a big part of most people's daily routines.

1. Data is calculated based on grouping the top 20 best selling products in TikTok Shop's existing markets (UK, US, ID, TH, PH, VN, MY) into their respective product categories

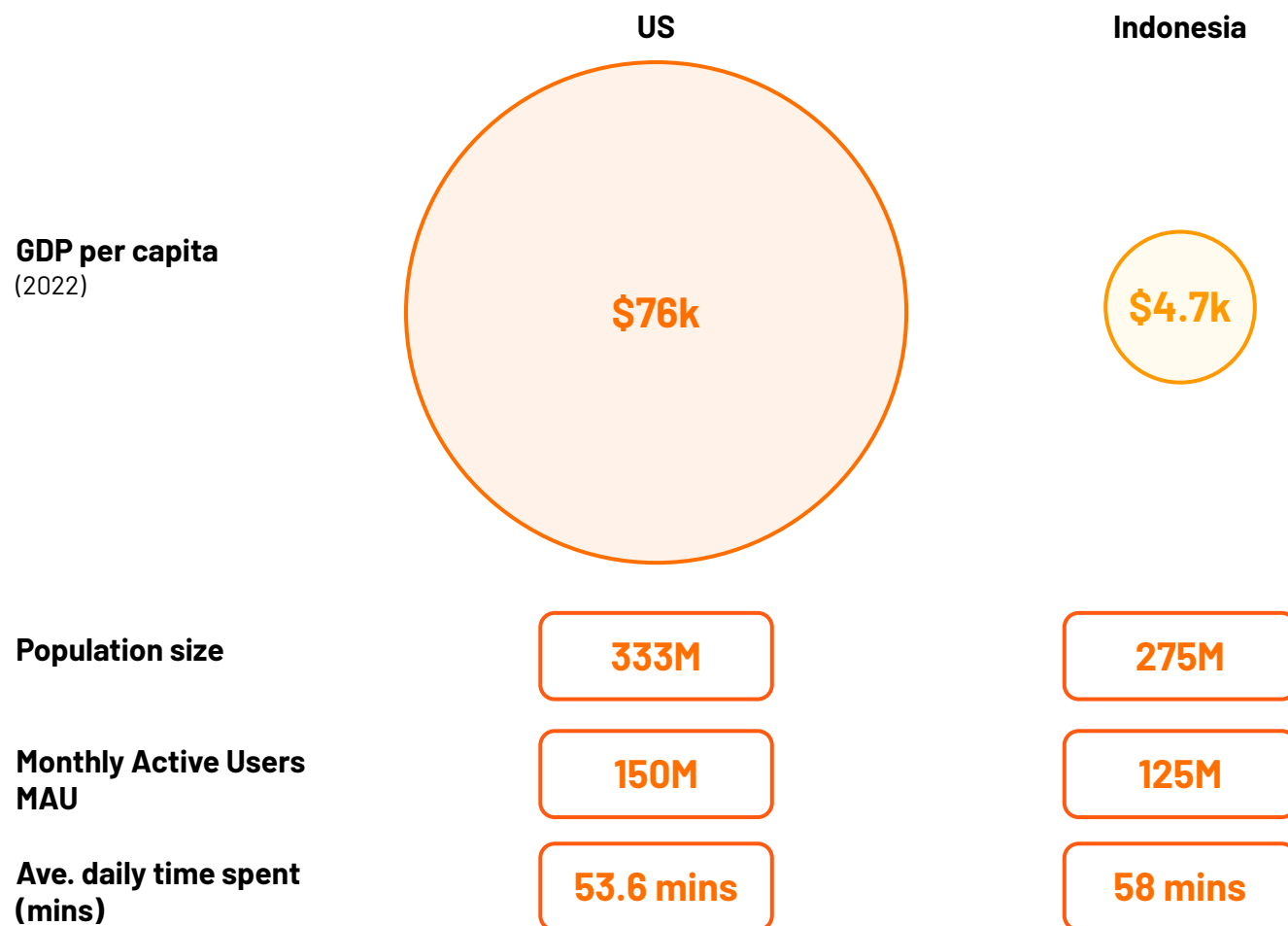
Source: FastData; Momentum Works Insights

5. Would American consumers watch videos and buy things?

US market presents a huge opportunity for TikTok Shop



US hosts TikTok's largest MAU base globally, and its GDP/capita is 16x that of Indonesia



Given its **highly affluent and active user base**, the US market could **potentially be a much bigger market** for TikTok Shop in the future and help TikTok **unlock greater commercial opportunities** than all the Southeast Asian markets combined, if they play their cards right.

Also, as mentioned earlier, TikTok's ecommerce play in the US could also be strategic, creating more opportunities for businesses in the US and thus alleviating the political pressure on TikTok as a "Chinese-owned" content platform.

However, the question lies in whether TikTok is able to **convince American consumers to shop with them, and deliver a good fulfillment experience** (which Amazon took decades to build).

American consumers do not have the habit of watching videos and buying things?



Chinese consumers are more used to buying things via live / video



CN

Taobao incorporated **live** onto its marketplace since 2016; Live is **featured prominently** on **Taobao homepage**



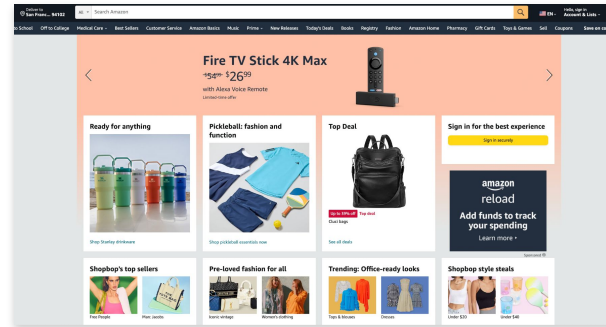
US

Amazon focuses on **simple interface**



Taobao Live

11/11 shopping festival in China



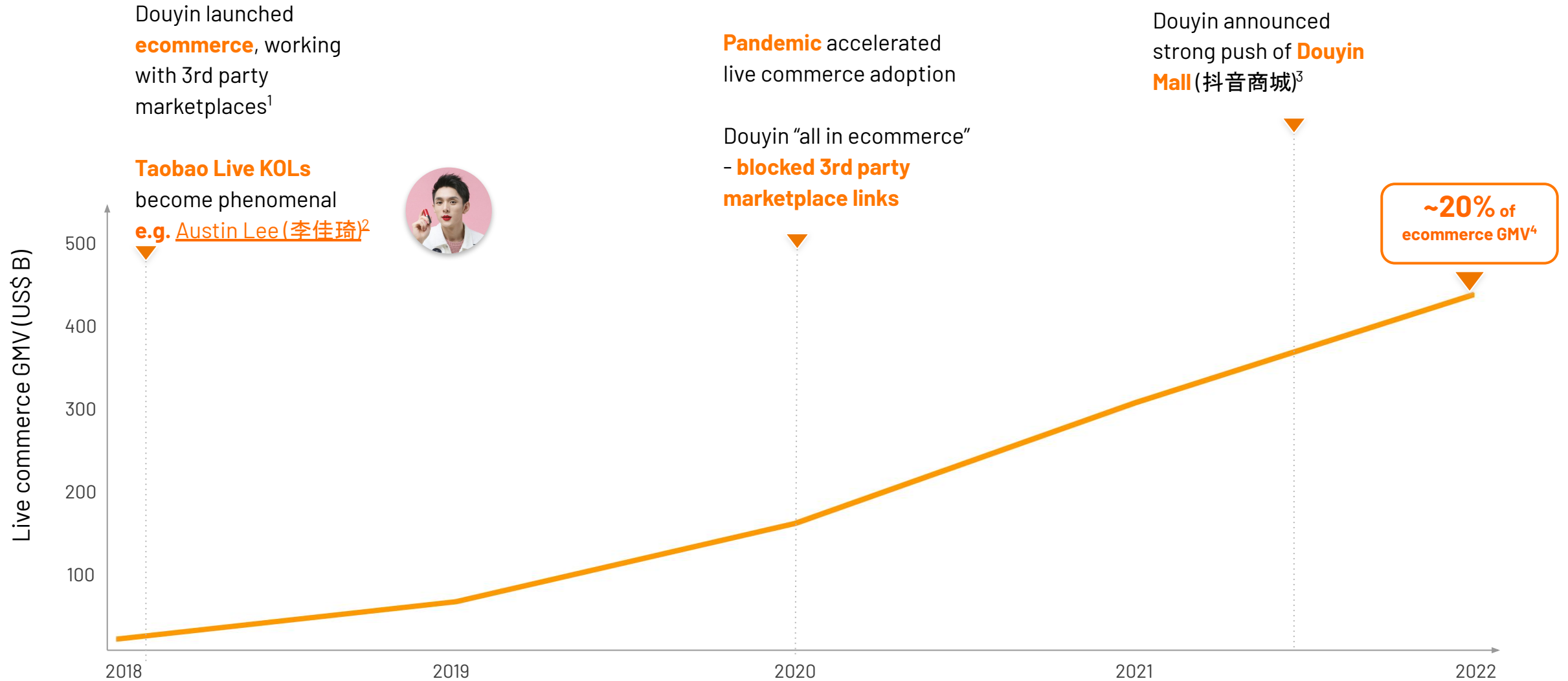
Offline shopping festivals are still big in the US

Many believe **live commerce might not succeed** in the US due to the perception that American **consumers aren't accustomed to shopping through videos**.

However, remember that before 2007, nobody would tell you they wanted an iPhone because no one knew that an iPod and a phone can be put into one device?

In the next few slides, we discuss whether TikTok ecommerce will work in the US, what are the **factors that enabled live commerce to take off in China**, which of these factors will be **applicable in the US**, and what are the **learnings** we can take from China's live commerce development.

In China, live commerce has gained meaningful scale over the years



1. Consumers can checkout directly / are redirected to 3rd party marketplaces Taobao, JD 2. Austin Lee is China's top live commerce host that managed to sell US\$2.9b worth of goods within one single session 3. Added Douyin Mall in the homepage of Douyin App in March 2022. 4. Live commerce GMV (which consists of Douyin, Kuaishou and Taobao Live) as a % of total ecommerce GMV (which consists of Taobao & Tmall, Pinduoduo, JD, Douyin, Kuaishou)
Source: Press search; Crunchbase; Momentum Works research & insights

Some factors enabling live commerce's take off in China are also present in the US



These factors are also applicable in the US



- 1 Established **ecommerce habit** and **infrastructure** (payment, logistics)



- 2 Large group of brands and sellers seeking cheaper traffic beyond marketplaces



In US: brands commonly use brand.com



- 3 Established habit of **producing, watching** (and **paying for**) **live streams** even before ecommerce¹

While other factors are thus far more unique to China



Might not be because it can't be done outside China, but no one has done it yet



- 4 Pool of trained **live commerce hosts** thanks to Taobao's early foray into live commerce

↑
In US: Large pool of live stream hosts but most are not doing live commerce, while live commerce hosts are often untrained



- 5 Ecosystem of **MCNs** to incubate, train and source competitive products for hosts

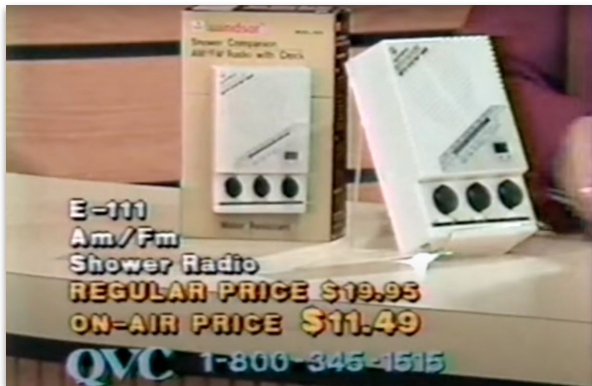
↑
In US: MCNs primarily organise and distribute user-generated content (no sourcing of goods)



- 6 **Platforms' commitment** to make live commerce work, driven by intense competition

In US: Facebook and YouTube have made live possible, but not been provisioning the full set of tools

Ultimately, video commerce is not that alien to American consumers



TV home shopping broadcast in 1986



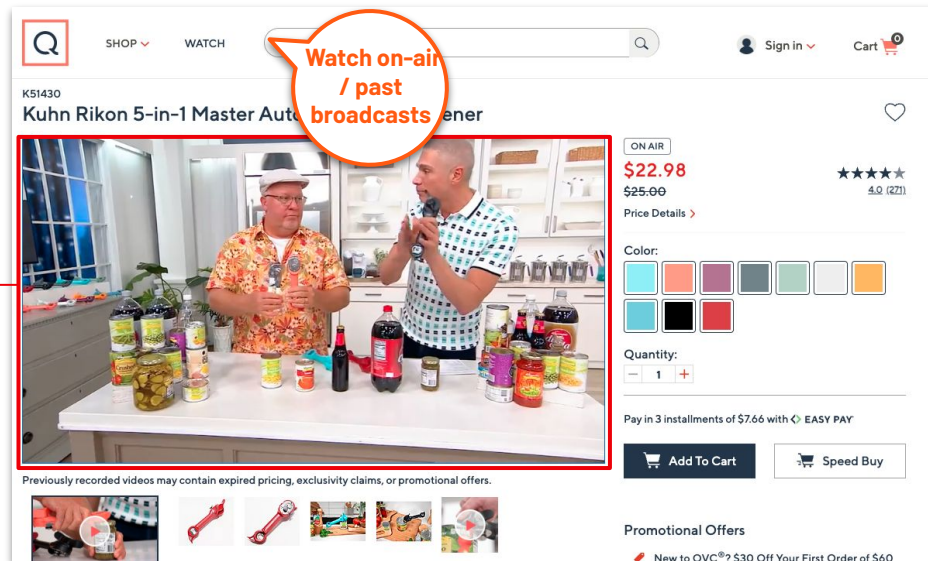
TV shopping channel today

Live commerce is basically TV shopping, something which many Americans are already familiar with, but online and with more real time conversion capabilities.

The habit of watching videos and buying things is actually not new to Americans, especially among those from the older generations. Popularised in the US in the 1980s, the concept of home shopping through dedicated TV channels has been around for almost 40 years and was once **a multibillion-dollar industry**.

TV shopping channels **operate similarly** to live commerce held on platforms like TikTok, and also **rely heavily on hosts** (often with celebrities or product experts in the mix) to present and sell products. While orders were originally placed only via telephone (a labour-intensive process with more friction in conversion), online ordering via links is now added into the TV shopping business model to compete with ecommerce platforms like Amazon.

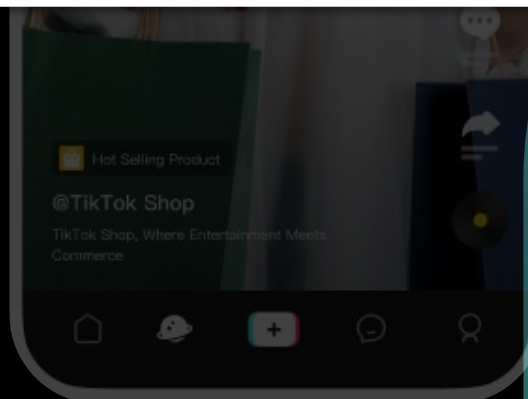
With a general decline in TV consumption and a rise in streaming services and online entertainment, it would probably **take some time for older Americans to become re-familiarised and for younger Americans to develop** the habit of watching videos and buying things (now hosted on a brand new platform), a process that could be **accelerated by having a developed ecosystem** supporting the live commerce industry.



TV shopping channel moving into ecommerce while still retaining its offline TV elements

Video from TV demo embedded in product page

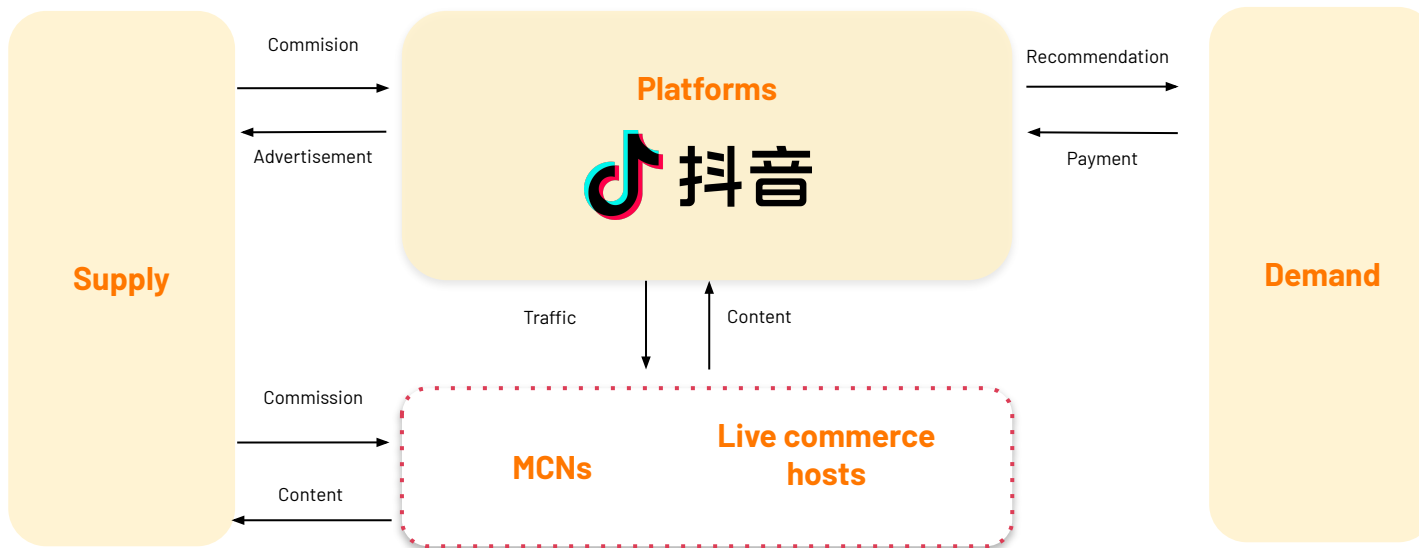
6. How can TikTok build its ecosystem?



How can TikTok build an ecosystem, drawing learnings from Douyin



China has a highly sophisticated live commerce ecosystem



* For more on live commerce ecosystem in CN and SEA



Live commerce in Southeast Asia - a report by Momentum Works

In China, Douyin ecommerce has achieved meaningful scale, surpassing > US\$ 200B GMV since its launch in 2018.

There are some learnings that TikTok can learn from Douyin's experience in order to develop a **localised strategy**.

In the next slide, we will explore **how Douyin built its ecosystem** of supply, demand, MCNs and live commerce hosts to improve conversion in the early days of its ecommerce development.

However, ultimately, it comes down to the ability to put in **consistent efforts and investment** before it bears fruit.

Douyin focuses on a few key areas (other than promotions) to improve conversion



1

Build supply



Bubble + water gun and mini kitchen set (which you can cook real food) on Douyin

As major sellers and brands are already established on Taobao and Tmall, Douyin entered the market with **unbranded**, **'gimmicky' / differentiated** products. The initial traction helped to attract **domestic brands**, and subsequently, established / **international brands**.

2

Strengthen content

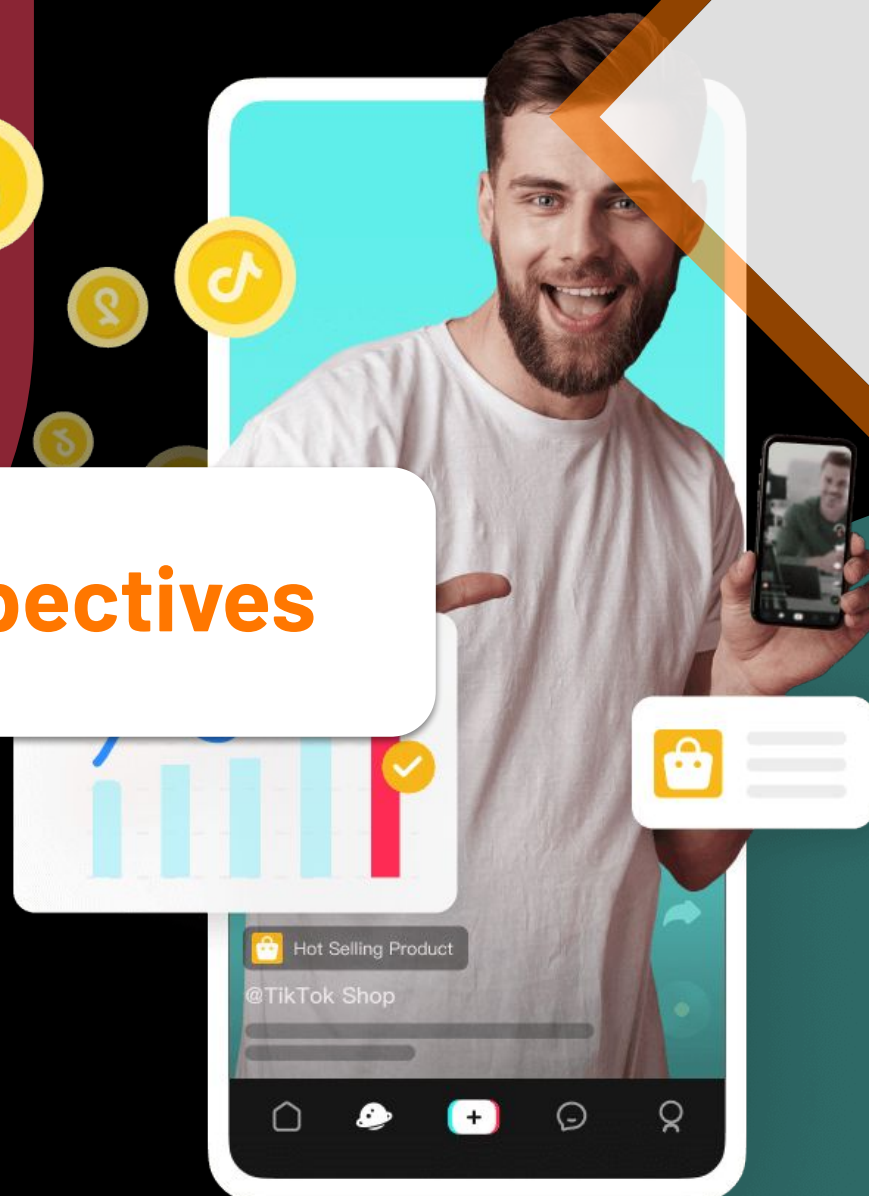


Douyin Partners offline event

As **hosts' popularity and followings** are key to driving live commerce sales, Douyin has fostered **partnerships** between **brands** and **MCNs** (which incubate, train and source competitive products for hosts).

Ultimately, a developed ecosystem will encourage positive self-reinforcing growth: better sales will attract more sellers to join and offer attractive deals, which will attract more consumers.

Conclusion & perspectives



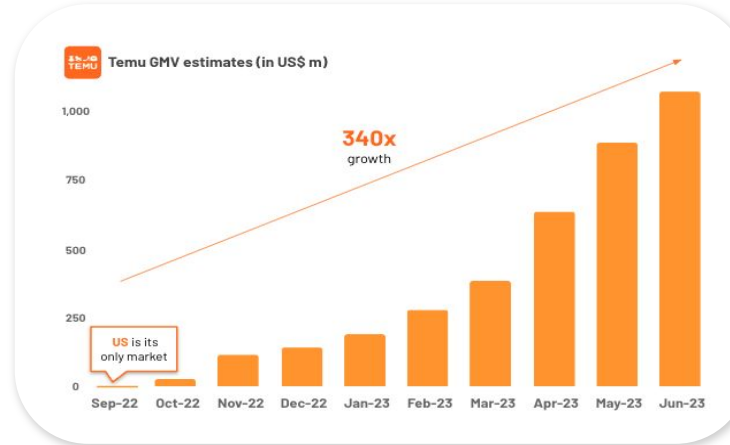
Global ecommerce landscape is being disrupted by the trio



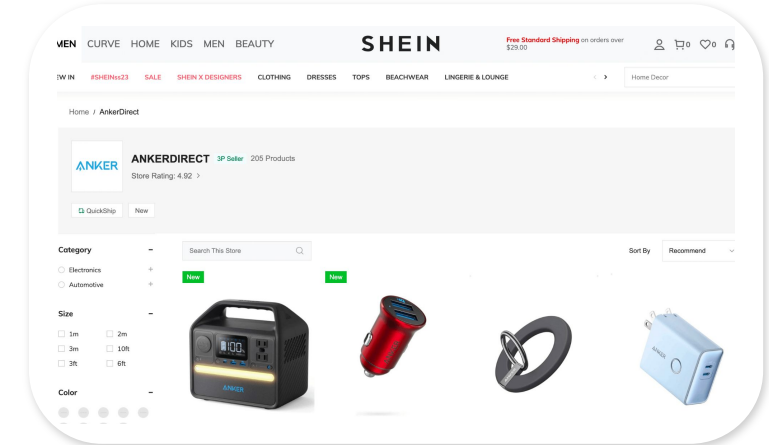
TikTok Shop, Temu and SHEIN, while competing against each other, are collectively disrupting the global ecommerce order



TikTok Shop's ambitious target of reaching **US\$ 20B GMV** in 2023



Temu's aggressive growth and global expansion¹



SHEIN expanding from fashion retailer into a general **marketplace**

** For more, refer to:*

Who is Temu? - a report under Momentum Works' company anatomy series

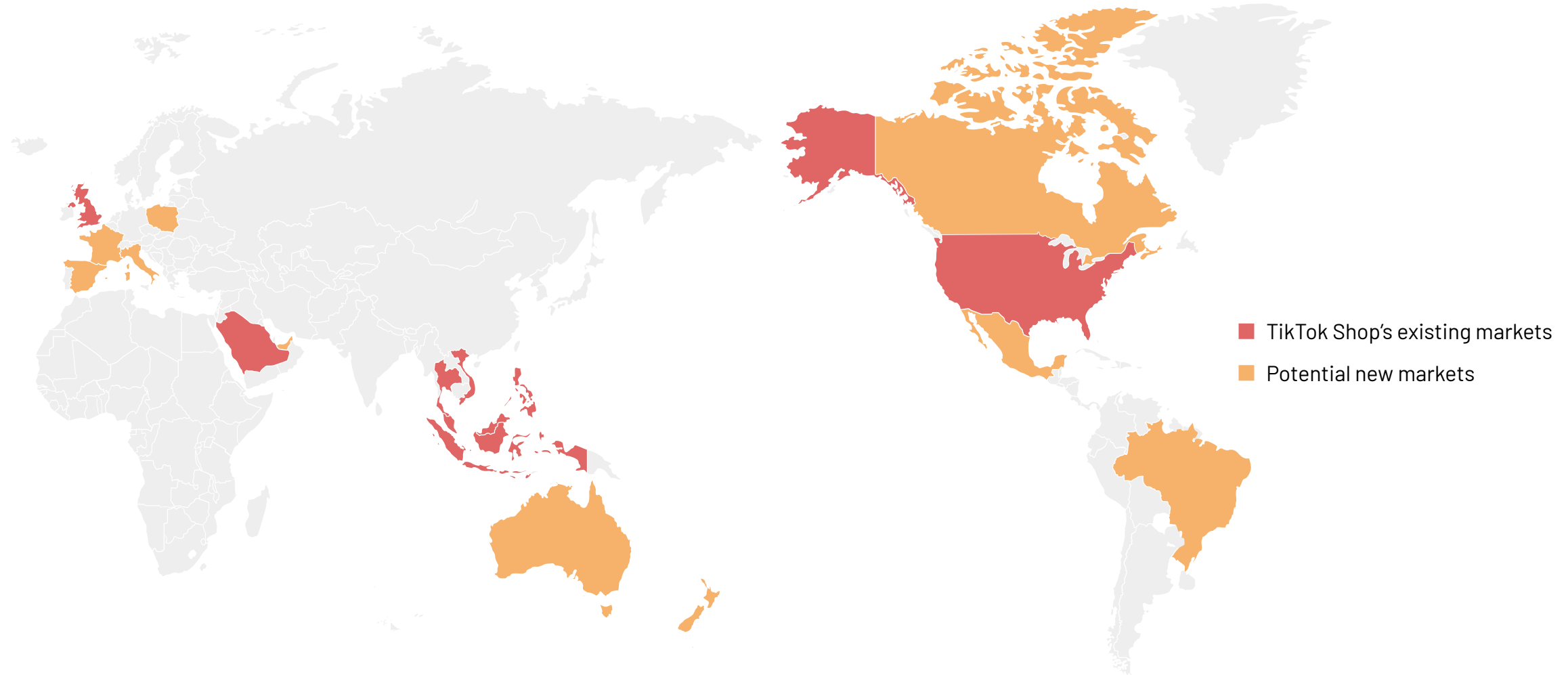


Who is SHEIN? - a report under Momentum Works' company anatomy series



1. Temu has expanded into 34 countries as of 10 Aug 2023
Source: Industry interviews; Momentum Works insights
© Momentum Works

Will TikTok Shop expand into new markets?



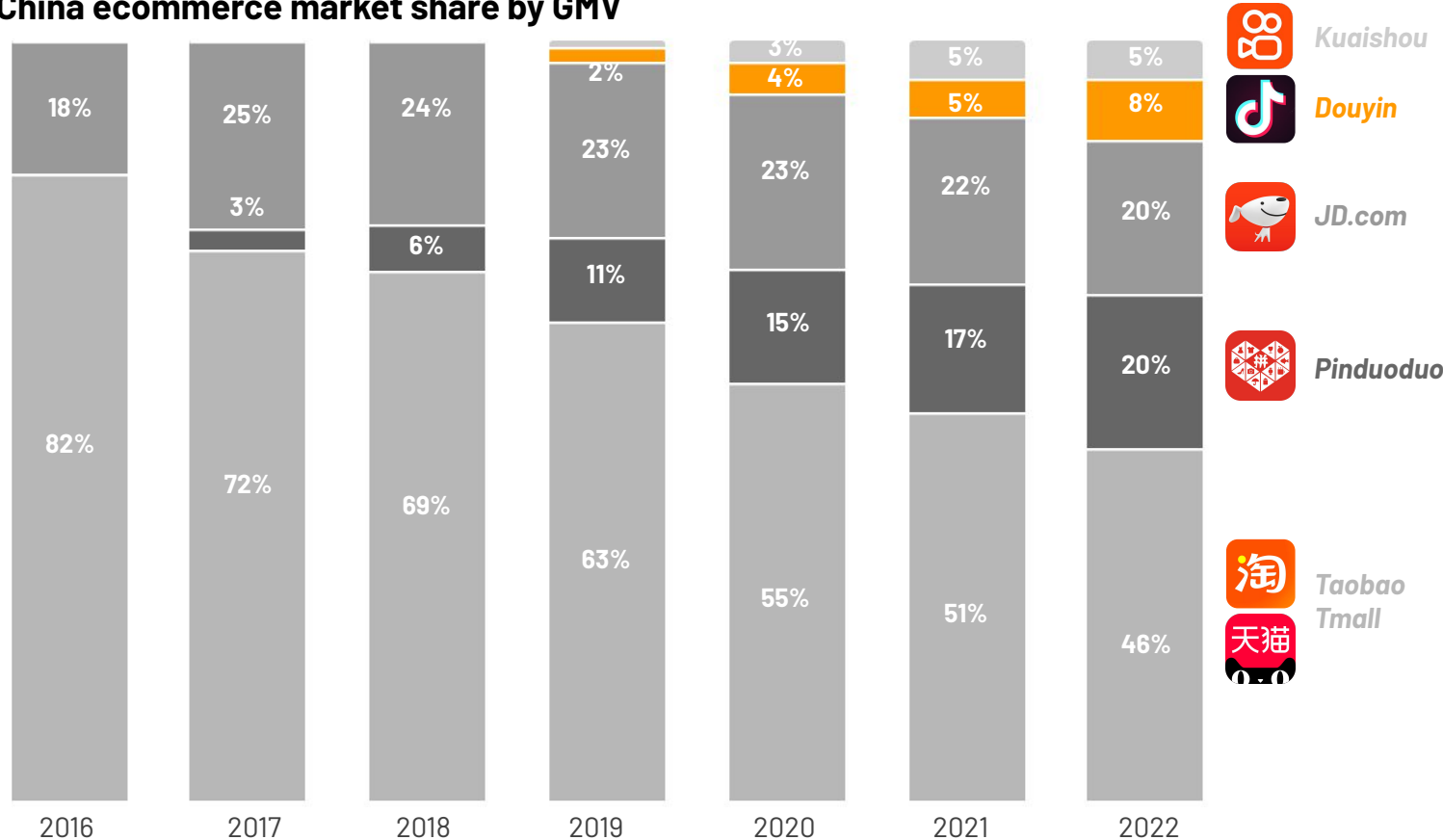
While TikTok is currently focused on growing its ecommerce scale in existing markets, the company is “**continuing to elevate opportunities for further international expansion**”. Above are a few markets we believe might be under their radar, based on TikTok’s popularity, consumer behaviour, ecommerce infrastructure and competitive landscape in respective markets.

Change is the only constant



When Alibaba & JD dominated ecommerce in China in 2016, everyone thought it was the end – it wasn't

China ecommerce market share by GMV



Whether TikTok Shop is a threat to incumbent platforms might not be a standalone question at all. The bigger narrative is that in ecommerce, where leading players seem to have a network effect and structural advantage, **disruption can still happen.**

We can argue that Shopee's displacement of Lazada from Southeast Asia's top spot was because the market was in such an early stage that nothing was set. Nonetheless, in a market deemed as mature as China in 2017, Pinduoduo, Douyin and Kuaishou **still succeeded in challenging the Alibaba-JD duopoly.**

In Southeast Asia, where the capabilities gap between leading players (Shopee & Lazada) and TikTok Shop is smaller as compared to China, the **incumbents should remain focused and vigilant.** As while they have some structural advantages and TikTok is seemingly chaotic, the latter **is and can continue to be a faster learner.**

How will TikTok hit its \$ 20B GMV target for 2023?

Starting from zero barely two years ago, TikTok Shop has established itself as a meaningful ecommerce platform in Southeast Asia, achieving a total of **GMV US\$4.4 billion** across all six major markets in the region in 2022.

Many ecommerce and retail veterans voiced out their scepticism of TikTok's US\$20 billion global target. However, judging from the traction we have seen from different data points on the ground - **at least in Southeast Asia they are on track for the 1st half of the year**. There are a lot of challenges and some organisational issues along the way, but as mentioned in this report, the efforts to keep improving the conversion continue. The leadership might have **diverted some attention to the US market**, but the **commitment to existing markets seems to be unwavering**. We do not yet see any internal or external factors that might lead the company to change course, or focus.

Is TikTok Shop sustainable?

Another question is - sure \$20B, but what is the long term? Would TikTok Shop eventually overtake incumbent players in each market they are in? Will they make money?

As we have learnt over the years, ecommerce platform is a **game of building an ecosystem and an efficient flywheel**. TikTok Shop has a **natural advantage of customer traffic** and **leadership commitment** to allocate a good portion of the traffic to ecommerce (as opposed to advertising). As TikTok Shop **scales** and start to gain **more leverage over the payment/fulfilment infrastructure**, it **can and should be able to become a profitable business** in the major markets it operates in. **Shopee** has already shown the way that even in Southeast Asia, with relatively lower consumption power compared to developed markets, **profit is possible**.

We can't, however, predict how big TikTok Shop's eventual volume or market share in its major markets will be - that will depend on multiple factors including **TikTok Shop's own continuous commitment and organisational evolution**, as well as external factors in politics, geopolitics, competitive response and of course, global economic conditions.

Interesting times!



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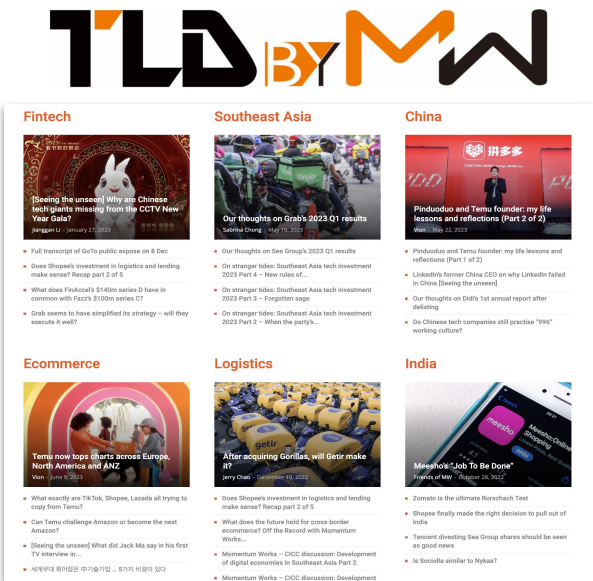
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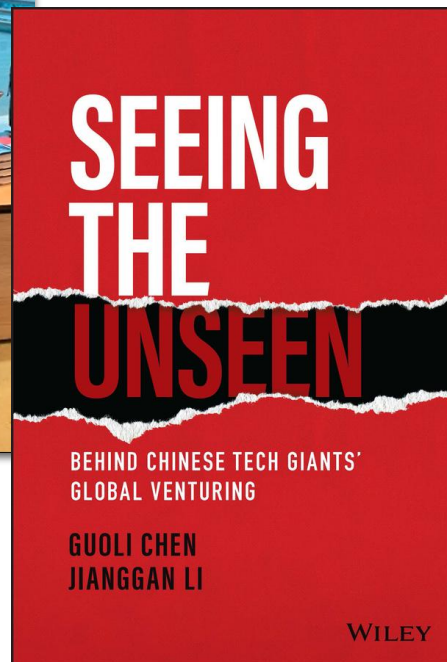
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